

LOUISIANA WORKFORCE COMMISSION

STATE OF LOUISIANA



FINANCIAL AUDIT SERVICES
MANAGEMENT LETTER
ISSUED JANUARY 24, 2018

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Louisiana Legislative Auditor

Daryl G. Purpera, CPA, CFE



Louisiana Workforce Commission

January 2018

Audit Control # 80170077

Introduction

As a part of our audit of the State of Louisiana's Comprehensive Annual Financial Report (CAFR) and the Single Audit of the State of Louisiana (Single Audit) for the fiscal year ended June 30, 2017, we performed procedures at the Louisiana Workforce Commission (LWC) to provide assurances on financial information that is significant to the state's CAFR; 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.

The mission of LWC is to put people to work in fulfilling, family-sustaining careers by unlocking their potential with LWC's extensive resources.

Results of Our Procedures

Follow-up on Prior-year Findings

Our auditors reviewed the status of the prior-year findings reported in the LWC management letter dated December 14, 2016. We determined that management has resolved the prior-year findings related to Improper System Implementation, Improper Benefit Payments, and Noncompliance with Interstate Benefit Payment Plan. The prior-year findings related to Improper Change Management, Weak Security Controls, Noncompliance with Federal Regulations over Benefit Overpayments, Unreliable Financial Reporting, Poor Contract for Services, and Inadequate Controls over Federal Reporting Requirements have not been resolved and are addressed again in this letter.

Current-year Findings

Inadequate Change Management

For the second consecutive year, LWC did not establish adequate policies and procedures over changes made to the computer systems used to administer the Unemployment Insurance (UI) program. LWC administers the UI program through use of the Helping Individuals Reach Employment (HiRE) system. Failure to establish adequate change management policies and

procedures may result in increased risk of errors, overpayments, financial misstatements, fraud, or unauthorized disclosure of data.

The following deficiencies were noted during our audit:

- Although LWC performs user acceptance testing of system changes, changes occurred to one part of the system that caused negative impacts to other parts of the system. For example, system changes to HiRE resulted in the inability to view documentation from drop down menus, missing older records in reports, and miscalculated assessment dates, even when these functions had worked previously in production. Failure to perform adequate regression testing increases the risk that system changes that caused other system malfunctions would not be detected. Regression testing is a shared responsibility between Geographic Solutions, Inc. (GSI) and LWC to detect and prevent these negative impacts.
- LWC lacked updates to its training programs and did not notify employees of updated manuals. As a result, users may be unaware of how application changes impact their job duties.

LWC should establish, within its contract, service levels and performance measures that require GSI to practice appropriate change and release management, which would include adequate regression testing. In addition, management should identify specific change control performance measures for consideration in future Service Organization Control 1, Type 2 reports, and fully update all documentation and training programs relevant to the HiRE system. Management concurred in part with the finding and outlined a plan of corrective action. Management concurred with respect to the regression testing portion of the finding noting that it continues to work with GSI to ensure proper and complete testing. In addition, management mentioned it will amend its maintenance agreement with GSI to include service level and performance measures including key performance indicators associated with change and release management (see Appendix A, page 2).

Additional comments: LWC did not concur that it lacked updates to its training program, citing the existence of “Deployment Announcements,” existing training materials, and logs of attendance. Deployment Announcements communicate new functionality and their impact on LWC. However, LWC did not provide evidence that it used these announcements to update its training program during the fiscal year, which would be critical for training future employees or future reference as needed. Additionally, while the existing training materials and logs of attendance provide evidence that a training program was in place and employees attended the training, these materials do not provide evidence that LWC updates its training program as an integral part of its change management process. Finally, in its response, LWC states that a comprehensive training manual has been implemented. While LWC did provide an updated training manual to its employees, it was not distributed to employees until June 30, 2017, the last day of the fiscal year.

Weak Security Controls

For the second consecutive year, LWC did not properly secure HiRE and its systems by reviewing security reports, monitoring system activity, and classifying data. Inadequate security of LWC's systems may lead to errors, improper payments, or unauthorized view or modification of unemployment insurance and tax data.

Audit procedures identified the following:

- Although procedures exist outlining the process of assigning, monitoring, and revoking HiRE access, those procedures do not address the use of the newly-designed HiRE security reports. In addition, no evidence was provided to show how the reports were being used for regular monitoring. As a result, unauthorized changes to data could occur and not be detected. However, we did not note any instances of unauthorized changes during our work.
- As noted in our prior-year report and again for the current year, an LWC IT employee had overlapping duties that permitted back-end changes to data in the Louisiana Wage and Tax System (LaWATS), access to all change files on LWC's internal network, management of encryption keys, and access to change benefit payment files generated from HiRE without authorization or independent monitoring. Using this access, the person could change virtually any data without LWC's knowledge. In addition, this IT employee regularly monitored and corrected interface timing issues between LaWATS and HiRE through direct changes to the LaWATS production database. LWC transferred this employee's duties to the Office of Technology Services (OTS) after fiscal year-end.
- LWC did not classify what data is public, internal, sensitive, confidential, and restricted according to OTS policy. Proper classification is necessary for LWC to determine the appropriate security technologies and measures to apply based on the data's sensitivity.

Management should implement procedures that address the review of security reports to include identification of the individuals responsible for the review and frequency of the reviews. These procedures should require individuals without ability to modify access to perform the independent reviews. In addition, management should define the classification of its data according to OTS policy and prioritize its security measures based on this classification. Management concurred that the IT employee with overlapping duties had broad access, but did not concur with the other aspects of the finding (see Appendix A, page 3).

Additional Comments: While adequately addressing the method of adding and removing accesses from HiRE, LWC's existing access procedures do not detail the process for monitoring access or the use of HiRE security monitoring reports. During the fiscal year, LWC did not have any "procedural guides for various security reports" in place. Additionally, LWC states that it uses security monitoring reports "as warranted," while citing other preventative security measures. However, regular monitoring of security reports is a critical aspect of security, since

unauthorized system activity and security breaches may still occur if preventative measures fail. Procedures for reviewing HiRE security reports should define necessary monitoring as part of a proactive, rather than reactive, security program.

LWC provided policy documents that describe LWC's confidential data and its proper treatment in accordance with state and federal law. In its Personnel Policy Statement No. 22, LWC states that "all individual records in the possession of the Department of Labor are generally considered confidential." However, LWC's policy should identify how specific types of data should be classified. The OTS Information Security Policy defines data classification as restricted, confidential, public, or uncategorized, all having distinct differences. In addition, the OTS Information Security Policy provides examples of specific types of data to consider for each category. LWC should classify the data according to the guidance provided by OTS.

Noncompliance with Federal Regulations over Benefit Overpayments

For the second consecutive year, LWC did not ensure compliance with UI regulations that improve program integrity and reduce overpayments. Failure to properly determine and handle overpayments results in noncompliance with federal regulations, which could result in disallowed costs that would require repayment and/or affect future funding for the administration of the UI program.

Federal regulations require states to properly identify and handle overpayments, including offsetting of applicant debt for overpayments. In addition, internal controls should ensure that the system provides accurate information based on transactions that occur in the system throughout the year, including information provided to claimants through statements. LWC has not completed the redesign of HiRE's overpayment functionality, and, as a result, problems continue to occur.

Audit procedures revealed the following:

- The HiRE system was unable to produce a reliable report of overpayments that occurred during the fiscal year because of continued issues relating to its implementation from the previous year.
- Monthly statements generated from the HiRE system and mailed to claimants contain errors. For example, the amounts due at the beginning of the month do not agree to amounts due at the end of the previous month's statement. In addition, charges included on statements do not calculate correctly to the ending balance. As such, it is not possible for a claimant to determine the amount actually owed.
- Federal regulations require states to enter into the Interstate Reciprocal Overpayment Recovery Agreement, which allows states to recover overpayments from benefits being administered by another state. In our prior audit, we reported that LWC had not fully implemented the process of exchanging information and had not recovered overpayments from other states. During the current year, LWC

established a manual process to transmit the required data. However, LWC only began receiving and offsetting other states' payments against Louisiana claims in March 2017. Additionally, LWC only began transmitting its own data to other states for their offsets in August 2017. Furthermore, LWC has not updated procedures for the manual process. As a result, the process may be subject to inconsistent application and error.

Management should continue to develop a comprehensive plan to resolve issues with HiRE to ensure it can comply with federal regulations over benefit overpayments. Management concurred with the finding and outlined a plan of corrective action (see Appendix A, page 4).

Unreliable Financial Reporting

For the second consecutive year, LWC did not have adequate controls to ensure proper financial reporting over the Unemployment Trust Fund (UTF).

In order to estimate the accounts receivable at year-end for unemployment insurance overpayments, LWC utilizes the Overpayments Established report and the Overpayment Recoupment Summary reports from the HiRE system. Audit procedures revealed that these reports contain inaccurate information and non-reconciling items. As a result, we are unable to rely on these reports to provide sufficient, appropriate audit evidence. In addition, we were unable to confirm or verify the following accounts by alternate means:

- Accounts Receivable - Other (\$81,335,322) less allowance for Uncollectibles (\$57,381,362) represents amounts due from claimants for overpayments of unemployment benefits.
- Due to Federal Government (\$9,059,321) represents amounts due to the federal government for overpayments to claimants related to federal unemployment programs.

Failure to establish adequate internal control over financial reporting increases the risk of material misstatement in the fiscal reports which could cause misstatements in the CAFR for the State of Louisiana.

LWC management should develop a comprehensive plan to resolve issues with HiRE, including its reporting functions. Management concurred with the finding and outlined a plan of corrective action (see Appendix A, page 5).

Inadequate Contract for Services

LWC's contract with GSI lacked key essential terms. Failure to formalize key contract terms increases the risk of misunderstandings and/or nonperformance of services and may lead to LWC's inability to continue operations of the UI program if GSI can no longer provide services.

LWC contracts with GSI as a sole source provider of the HiRE system. The HiRE system is used to administer the state's UI program, and GSI performs critical services without which LWC could no longer operate the program.

Although LWC amended its contract with GSI to address problems noted during our prior audit, the amended contract lacks the following:

- An escrow clause to enable LWC to resume operation of a system that can run HiRE's source code in the event GSI fails to meet contract terms.

Although LWC amended its contract with GSI during fiscal year 2017 to require a source code escrow, the protective language of the amended contract does not account for the infrastructure and other systems this source code requires for execution. As a result, LWC may be unable to use the source code in the event of GSI's contractual default.

- An adequate scope in GSI's Type 2, Service Organization Control (SOC) 1 report to provide LWC adequate assurance over HiRE.

Although LWC amended its contract with GSI and obtained a Type 2, SOC 1 report during fiscal year 2017, the agreement with GSI lacked specific requirements that would provide sufficient independent assurance that HiRE's source code and key reports operated as intended during the fiscal year to support financial reporting requirements and federal compliance requirements. As a result, the SOC report did not address key aspects of HiRE's processing and output, including but not limited to:

- Accuracy and completeness of the Overpayment Recoupment Summary and Detail report, the Daily Adjustments report, the Payment Register, and other reports used to support LWC's financial reporting;
- Processing and output used to support LWC's federal reports, including the *ETA 227 Overpayment Detection and Activities* (ETA 227) and *ETA 2112 UI Financial Transactions Summary* (ETA 2112) reports; and
- Processing, calculation, and output for penalty assessments imposed on claimants that receive overpayments due to fraud.

Management should amend its contract with GSI to establish an escrow arrangement that goes beyond source code to fully protect LWC in the event of GSI's default. Management should also amend its contract with GSI to identify specific elements of the annual Type 2, SOC 1 report LWC needs to assure HiRE's ability to support proper functioning and reporting over the UI program. Management concurred in part with the finding and indicated it will work with GSI and OTS to identify a resolution on the escrow clause and adequate scope of the Type 2, SOC 1 report (see Appendix A, page 6).

Inadequate Controls over Federal Reporting Requirements - Unemployment Insurance

For the second consecutive year, LWC did not have adequate controls in place to ensure required federal reports were accurate, complete, and properly prepared. Failure to accurately complete and submit required federal reports results in noncompliance with federal regulations, which could affect future funding for the administration of the UI program.

LWC is required to submit the quarterly report ETA 227 to the U.S. Department of Labor (USDOL). This report helps monitor the integrity of the benefit payment process in the UI system by providing information on overpayments of UI claims for the state and federal unemployment insurance programs. LWC is also required to submit the ETA 2112, a monthly summary of transactions in the state's unemployment fund. Both reports are compiled using information generated from the HiRE system.

HiRE does not readily produce accurate federal reports; instead, it relies on queries against its underlying database. These queries require proper design and programming using appropriate database tables, fields, and properly processed source data. HiRE's underlying queries do not consistently provide complete and accurate output in HiRE's displayed fields and reports.

Because LWC has not completed the redesign of HiRE's overpayment functionality, including the related reporting requirements, we were unable to confirm or verify the information contained in the ETA 227 reports. Additionally, LWC did not develop or request an ad hoc query to obtain reimbursable benefit payment data needed for the ETA 2112 report. Thus, the information was not reported in the respective sections of the report for months filed after September 30, 2016.

LWC management should establish and implement adequate controls to ensure that required federal reports are accurately prepared and submitted in accordance with federal regulations. Because reports are system-generated, LWC should ensure HiRE is properly designed and programmed to achieve federal reporting objectives. Management concurred with the finding and outlined a plan of corrective action (see Appendix A, page 7).

Improper Eligibility Determination for Pre-Employment Transition Services

LWC improperly determined eligibility for students participating in the Pre-Employment Transition Services (Pre-ETS) program. As a result, LWC is in noncompliance with federal regulations and could owe funds to the U. S. Department of Education.

LWC improperly determined that 103 students were eligible based solely on wearing prescription eyeglasses, even though this is not considered a disability under the program requirements. During fiscal year 2017, LWC paid \$272,782 in Vocational Rehabilitation (VR) program funds for services for these students, which we consider questioned costs.

Pre-ETS, a VR program, is provided to students with disabilities who need those services to achieve competitive integrated employment, and are eligible or potentially eligible for VR

services. Federal regulations require that in order to be eligible for VR services, an individual must have a physical and/or mental impairment that, for such an individual, constitutes or results in a substantial impediment to employment, and requires VR services to achieve an employment outcome.

LWC should implement controls to ensure that students participating in the Pre-ETS program meet federal eligibility requirements. LWC should also determine if any students' participation needs to cease and determine if any funds disbursed on behalf of these students need to be recouped or are owed back to the U.S. Department of Education. Management concurred with the finding and outlined a plan of corrective action (see Appendix A, pages 8-10).

Untimely Development of Individualized Plans for Employment

LWC did not develop Individualized Plans for Employment (IPEs) timely, as required by federal VR program regulations. IPEs are developed for eligible individuals seeking VR services. The plans contain a description of the specific employment goal chosen by the individual, the specific VR services needed to achieve the goal, timelines for the achievement of the goal and for the initiation of services, criteria used to evaluate the individual's progress, and the terms and conditions of the IPE. Failure to complete the IPE timely results in noncompliance with federal regulations and may cause unnecessary delays for clients receiving services.

For four (16%) of 25 IPEs reviewed, LWC did not complete the IPE within the required timeframe, nor was there evidence of an agreement to a deadline extension. In these four cases, IPEs were completed between 104 and 223 days after the eligibility determination.

Federal regulations require that an IPE be developed as soon as possible, but no later than 90 days after the date of the determination of eligibility unless the state VR agency and the eligible individual agree to an extension of that deadline to a specific date by which the IPE must be completed.

LWC should strengthen procedures to ensure that IPEs are completed within 90 days of eligibility determination or obtain sufficient documentation that supports an agreement between LWC and the eligible individual to extend the deadline to a specific date. Management concurred with the finding and outlined a plan of corrective action (see Appendix A, page 11).

Inadequate Controls over Federal Reporting Requirements – Vocational Rehabilitation

LWC did not have adequate controls in place to ensure required federal reports for the VR program were accurate, complete, and properly reviewed. Failure to establish adequate controls over federal reporting requirements increases the risk of errors and could result in noncompliance with program requirements, which could affect future funding of the program.

A review of the Federal Financial Report (SF-425) submitted on September 30, 2016, revealed that LWC improperly reported Pre-ETS expenses of \$2,777,571 instead of the correct amount of \$5,148,909. This caused the report to incorrectly show that LWC had not spent the required

allotment of VR funds on the Pre-ETS program, which is considered noncompliance with program requirements. In addition, the Annual Vocational Rehabilitation Program/Cost Report (RSA-2) was not reviewed prior to being submitted to the federal agency.

Federal regulations require that non-federal entities receiving federal awards establish and maintain internal controls designed to reasonably ensure compliance with federal statutes, regulations, and the terms and conditions of the federal award. Good internal controls should include an adequate review process to ensure that the data presented in federal reports are accurately recorded, summarized, and reported.

LWC management should strengthen controls to ensure that federal reports are accurately prepared and adequately reviewed by personnel other than the preparer prior to submission to the federal agency. Management concurred with the finding and outlined a plan of corrective action (see Appendix A, page 12).

Deficiencies in Control over Payroll

LWC did not adhere to internal policies and procedures designed to ensure compliance with federal documentation requirements for compensation of personal services. LWC utilizes an electronic certification system for certification and approval of employee time sheets. However, LWC did not place sufficient emphasis on adherence with federal and state regulations over personnel expenses charged to federal awards. Consequently, time and attendance records were not properly certified, approved, and monitored, as required by federal and state regulations, which increases the risk of payroll error or fraud and may result in disallowed costs.

A review of 30 payroll transactions funded through the UI and VR federal programs identified the following exceptions:

- Two (6.7%) time sheets were not certified by the employee.
- Six (20%) time sheets were not approved by the supervisor.
- Seven (23.3%) system reports, needed for monitoring, were not printed and retained by time administrators as required by LWC policy.

Based on the results of the test above, we performed additional procedures on system reports for the time period July 1, 2016, through June 30, 2017. The following exceptions were identified:

- 2,360 (9.4%) of 25,184 time sheets were not certified by the employee.
- 1,178 (4.7%) of 25,184 time sheets were not approved by the supervisor.

Louisiana Civil Service Rules require each classified employee and the appointing authority or his agent to certify on each payroll that the actual service was rendered, the actual number of hours of attendance on duty, and the number of hours absent from duty. LWC's policies require certification and approval of all time sheets. LWC's policies also require timekeepers to maintain a hard copy of the ZP241 report, which identifies employees who have/have not

certified their time and approvers who have not approved/rejected employee time sheets. Furthermore, federal regulations require that records must be supported by a system of internal controls, which provides reasonable assurance that the charges are accurate, allowable, and properly allocated.

LWC management should enforce policies established by Civil Service Rules and LWC policy to ensure compliance with state and federal regulations over personnel documentation requirements. Management concurred with the finding and outlined a plan of corrective action (see Appendix A, pages 13-14).

Comprehensive Annual Financial Report (CAFR) - State of Louisiana

As a part of our audit of the CAFR for the year ended June 30, 2017, 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 and Receivables

Liabilities – Due to Federal Government and Other Current Liabilities

Statement of Revenues, Expenses, and Changes in Net Position

Revenues – Assessments and Use of Money and Property

Expenses – Unemployment Insurance Benefits

Based on the results of these procedures on the financial statements, we reported internal control deficiencies related to financial reporting. As previously noted, we were unable to rely on LWC's system to provide sufficient appropriate audit evidence to support amounts contained in the financial statements, and, as a result, we were unable to confirm or verify the following accounts by alternate means: Accounts Receivable – Other and Due to Federal Government. Other account balances and classes of transactions tested, as adjusted, are materially correct.

Federal Compliance - Single Audit of the State of Louisiana

As a part of the Single Audit for the year ended June 30, 2017, 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)

- Rehabilitation Services – Vocational Rehabilitation Grants to States (CFDA 84.126)

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 the Unemployment Insurance Program and the Vocational Rehabilitation Program (see Current-year Findings section). These findings will also be included in the Single Audit for the year ended June 30, 2017. 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.

The recommendations in this letter represent, 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,



Daryl G. Purpera, CPA, CFE
Legislative Auditor

JO:CR:BH:EFS:aa

LWC 2017

APPENDIX A: MANAGEMENT'S RESPONSES



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John Bel Edwards, Governor
Ava Dejoie, Executive Director

Office of the Executive Director

December 20, 2017

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

Dear Mr. Purpera:

The Louisiana Workforce Commission respectfully submits its management responses to the reportable audit finding included in the 2017 Financial Audit Services Management Letter.

My administration continues to work diligently to resolve all noted issues in the report. I pledge my complete cooperation with your office in addressing the noted issues and deficiencies. Your review and report significantly contributes to LWC's improvement efforts.

While considerable work remains, I think the progress made over the last fiscal year illustrates LWC's commitment to satisfactorily resolving these findings. Should you have any questions or need additional information, please feel free to contact my office at 225-342-3001.

Sincerely,

A handwritten signature in blue ink that reads "Ava Dejoie".

Ava Dejoie
Executive Director

Inadequate Change Management

The Louisiana Workforce Commission (LWC) concurs in part.

With respect to the regression testing component of this audit finding, the LWC concurs and continues to work with Geographic Solutions Inc. (GSI) to ensure proper and complete testing. The LWC and GSI are exploring additional methods of development and testing in support of quality regression testing.

The LWC, however, does not concur with the training aspect of the instant finding. A comprehensive training manual (**Attachment 1, HiRE Training Manual**), several on-line courses (**Attachment 2, Louisiana Employee Online (LEO) Staff Training Transcripts**), classroom training (**Attachments 3-3E**), and one-on-one training have been implemented. More specifically, the on-line courses, classroom training, and one-on-one training have been in place since 2013.

Though the original training manual was created in 2015, the revised training manual was completed and disseminated to staff in June of 2017, with updates made as recently as October 2017. What is more, system changes affecting user functionality are communicated to staff through a “Deployment Announcement”, an electronic document that details pre- and post-implementation functionality and anticipated impact to staff. The LWC has issued Deployment Announcements for all major changes to system functionality. Therefore, it is the position of the LWC that its training material and program are current and wholly relevant to HiRE in its present state.

Contact Person: Margaret Mabile

Corrective Action Plan: Though the contract at issue expired in 2015, the LWC will amend its annual maintenance agreement with GSI to include service level and performance measures, including key performance indicators associated with change and release management.

Anticipated Completion Date: March 31, 2018

For attachments, contact the Louisiana Workforce Commission

Weak Security Controls

The LWC concurs with the aspect of this finding that relates to the employee with overlapping duties. The LWC, however, does not concur in all other components relating to this finding.

The new security reports are just one of a number of tools LWC has to monitor staff access to the HiRE system, not the primary tool. In our opinion, the first line of defense is the HiRE administrator – a very restricted role reserved for a small, select group of trained LWC staff. Only administrators who are authorized to handle privilege changes can make such changes, and the number of administrators is very restricted, both by the Unemployment Insurance (UI) division and the Office of Workforce Development (OWD). Within UI, administrator restrictions have been taken a step further, with restrictions in place that limit administrator functions to specific tasks only (example: Disaster Unemployment.) It should be stressed that, as noted in the audit report, no instances of unauthorized changes by LWC staff have been found in HiRE.

Just as HiRE continues to evolve in functionality, the LWC will continue to grow and adjust our security monitoring techniques to ensure our customers' information remains protected. Following the release of the initial UI Instruction Letter 05-17, HiRE Access Privileges (**Attachment 6**), that outlined LWC's security protocol, we subsequently created procedural guides for the various security reports. These have been incorporated as part of our overall security toolkit.

Security reports are used by LWC as warranted. One example is the monitoring of HiRE access by personnel of external agencies that have a data-sharing agreement with LWC. The login security report is used bimonthly as part of the review process to help identify any accounts with no login activity within a 60-day window. Those accounts are then monitored and targeted for deletion.

Other security reports have been used in conjunction with privilege modifications as directed by UI management. The procedural guides for the security reports provide guidance on how the reports can be used to research and validate security findings.

Finally, the LWC disagrees that it has not classified its data. The LWC has had long-standing policies that support state (La. R.S. 23:1660) and federal (20 CFR 603) classification of UI data as confidential. The LWC continues to augment its policies as law and regulations are enacted. (**Attachment 7: Personnel Policy Statement No. 22, LWC Policy Number 38, and Internal Security Guidelines for Unemployment Insurance Programs and Employee Read Receipts**).

Contact Person: Patrick Smith

Corrective Action Plan: None required.

For attachments, contact the Louisiana Workforce Commission

Noncompliance with Federal Regulations over Benefit Overpayments

The LWC concurs.

Although system-generated reports of overpayments established were not available, Geographic Solutions Inc. was able to produce a query of overpayments established within the fiscal year. The cited query is the foundation that is being used to correct any outstanding reporting issues within the Overpayments Receivables Established report that HiRE produces. The LWC and GSI corrected numerous reporting issues throughout the fiscal year and continue to correct any outstanding issues with this report.

Monthly Statements: The monthly statements are being revamped to communicate clearly the current amount due to the LWC. The statement currently does not reflect all adjustments that have increased/decreased an overpayment balance.

IRORA: IRORA³ has been fully implemented in the current fiscal year (i.e., August 2017) and written procedures for the manual process have been documented since December 8, 2015. **(See Attachment 4, IRORA Document Requirements and Processes Guide)**. Updated procedures were disseminated to all staff on December 19, 2017. **(Attachment 5 – UI Instruction Letter 08-17)**

Contact Person: Margaret Mabile

Corrective Action Plan: GSI will restructure the overpayment code, as a means of stabilizing reports and overpayment functionality.

Anticipated Completion Date: January 31, 2018

For attachments, contact the Louisiana Workforce Commission

³ Interstate Reciprocal Overpayment Recovery Arrangement

Unreliable Financial Reporting

Though the LWC is firm in its position that its data is consistent with longitudinal data and the portion of receivables at issue is statistically insignificant when measured against the agency's nearly one billion dollars of assets, the LWC concurs for reasons ascribed below.

The LWC believes it has adequate controls to ensure proper financial reporting over the UTF, but acknowledges that conversion errors impacted our calculation of accounts receivables, net of uncollectible amounts. While accounts receivables, net of uncollectible amounts, do not represent a significant portion of our assets, we are addressing the following areas to provide reports that will adequately support our accounts receivable, net of uncollectible amounts:

1. Overpayment Recoupment Summary – We are in the process of correcting all historical reports. Current reports do not appear to have issues except for reallocations (reallocation privileges have been reduced for closer monitoring of this issue until it can be corrected).
2. Overpayments Established Report – We are in the process of correcting all historical reports. Current reports do not appear to have the issues that we have seen in the past.

Contact Person: Margaret Mabile

Corrective Action Plan: GSI will restructure the overpayment code, as a means of stabilizing reports and functionality.

Anticipated Completion Date: January 31, 2018

Inadequate Contract for Services

LWC believed that it had substantially complied with the explicit recommendations of last year's audit report on this issue. However, this year you raise new contract issues that you did not cite in your 2016 findings and recommendations, though they were present then. The LWC understands that our conversion to HiRE is an extraordinarily complex undertaking and that issues will continue to emerge that were not apparent previously. As was the case with our prior Legacy system, which was flawed and lacked many of HiRE's capabilities, HiRE must remain a process of continuous improvement that never will truly be finished. It is for this reason, the LWC concurs, in part. We also note that our former system's flaws, limitations, and design challenged our ability to successfully maintain and improve it. However, the many improvements successfully implemented by HiRE do not generate audit findings.

With respect to the escrow clause and as noted in the finding and as recommended by the Legislative Auditor in the 2016 audit, LWC amended its contract with GSI during 2017 to include an escrow clause for source code, but the amendment does not include a provision for inclusion of infrastructure, such as computer hardware, and other systems that might be required for execution of the source code. This requirement was not included in the original 2012 GSI contract, and we anticipate such a clause will include renegotiation of the contract terms, if determined feasible, including a substantial increase in the contract price. Preliminary quotes to create a separate production environment to be used in the event of GSI's default are nearly \$1.2 million, a sum that exceeds one-half of the annual cost of HiRE. The LWC will continue to work with GSI and OTS to identify a resolution to this issue that appropriately balances the risk posed and the cost of mitigating it.

As to the SOC 1, Type 2 Report, again, as recommended by the Legislative Auditor in last year's audit, LWC amended its contract with GSI during 2017 to obtain a SOC 1, Type 2 Report. Based on the detail provided by the Legislative Auditor in this finding, it appears that the procedures do not address specifics that are now detailed in the current year finding. Due to the nature of this type of engagement, we were unable to identify the existence of similar reports within or outside of Louisiana state government that might help us better communicate the recommendations of the Legislative Auditor to GSI. The LWC will continue to work with GSI and OTS to identify a resolution to this issue.

Contact Person: Renita Williams

Corrective Action Plan: The LWC will research and determine if an infrastructure escrow is financially feasible or cost prohibitive. If financially feasible, the LWC will amend its software maintenance agreement with GSI to include an infrastructure escrow clause.

Anticipated Completion Date: April 30, 2018

Inadequate Controls over Federal Reporting Requirements – Unemployment Insurance

The LWC concurs and will continue to work with GSI to identify a resolution to this issue. Additional progress on the ETA 227 and Data Validation (DV)¹ of Population 12-15 should satisfy the support required for the processing and output used to support LWC’s federal reports, including the ETA 227 and ETA 2112 reports.

Contact Person: Margaret Mabile

Corrective Action Plan: GSI will restructure the overpayment code, as a means of stabilizing reports and overpayment functionality. The LWC further anticipates that it will submit Data Validation for Populations 12-15² for the first quarter of 2018.

Anticipated Completion Date: May 31, 2018

¹ The purpose of USDOL’s Data Validation (DV) program is to verify the accuracy of Unemployment Insurance Required Reports. Each state must validate its data and report the results of the validation to USDOL.

² Populations 12-15 are the populations pertaining to overpayments data/reports.



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Office of Workforce Development

September 29, 2017

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RE: LWC Response to Legislative Audit Finding—Improper Eligibility Determination for Pre-Employment Transition Services

This is in response to the Legislative Audit findings communicated to the Louisiana Workforce Commission (LWC) in the letter dated August 25, 2017.

LWC Response:

LWC concurs that 103 students were improperly determined eligible, based solely on wearing prescription eyeglasses. LWC provides the following explanation regarding the circumstances that resulted in the improper eligibility determinations.

The Workforce Innovation and Opportunity Act (WIOA) amends the Rehabilitation Act of 1973. Vocational Rehabilitation (VR) agencies are now mandated to set aside at least 15% of their federal funds to provide Pre-Employment Transition Services (PRE-ETS) to students with disabilities who are eligible or potentially eligible for VR services. State agencies were charged with immediately implementing this new program, even though the final regulations were not issued until August 19, 2016, meaning that VR agencies were charged with implementing changes when the act was signed, but prior to the final regulations being issued. The changes required that VR agencies dedicate 15% of the federal allotment received by each state to be spent specifically on PRE-ETS. These services were to be made available to all students with disabilities who were eligible or “potentially eligible” for VR services. The definition of “potentially eligible” requires persons to meet at least one of the following three conditions: (1) a student with an Individualized Education Plan (IEP), (2) a student with a 504 plan, or (3) a student with documentation of a disability per 504 regulations. The first two criteria provided objective documentation upon which LRS could document the presence of a disability and make an eligibility decision. With regard to the final criteria, the following excerpt from the Executive Summary of the final Federal Regulations published, August 19, 2016, by the U.S. Department of Education suggests the intent for a broad interpretation of the term “potentially eligible.” Specifically, the regulations provide the following:

Implementing in § 361.48(a) the requirements of new sections 110(d) and 113 of the Act requiring States to reserve at least 15 percent of their Federal allotment to provide and arrange for, in coordination with local educational agencies, the provision of pre-employment transition services to students with disabilities. We have maintained our interpretation of “potentially eligible,” for purposes of pre-employment transition services, as meaning all students with disabilities, regardless of whether they have applied for or been determined eligible for the VR program. The Department believes this is the broadest legally supportable interpretation and is consistent with the congressional intent.¹

¹ Federal Register, published August 19, 2016 (accessed at <https://www.federalregister.gov/d/2016-15980/page-55630>)

LRS implemented PRE-ETS in good faith based on the congressional intent to apply a broad interpretation of disability. The third prong of the definition for “potentially eligible” is based on the broad provisions found in Section 504 of the Rehabilitation Act of 1973. It provides as follows:

(i) Handicapped person.

“(1) Handicapped persons means any person who (i) has a physical or mental impairment which substantially limits one or more major life activities, (ii) has a record of such an impairment, or (iii) is regarded as having such an impairment.”²

Section 504 also contains language that defines and provides guidance in relation to “major life functions, a record of such an impairment, and regarded as having an impairment.”

(ii) **Major life activities** means functions such as caring for one's self, performing manual tasks, walking, seeing, hearing, speaking, breathing, learning, and working.

(iii) Has a **record of such an impairment** means has a history of, or has been misclassified as having, a mental or physical impairment that substantially limits one or more major life activities.

(iv) Is **regarded as having an impairment** means (A) has a physical or mental impairment that does not substantially limit major life activities but that is treated by a recipient as constituting such a limitation; (B) has a physical or mental impairment that substantially limits major life activities only as a result of the attitudes of others toward such impairment; or (C) has none of the impairments defined in paragraph (j)(2)(i) of this section but is treated by a recipient as having such an impairment.³

Section 504 does not reflect an exhaustive list of what is considered “substantially limiting”; nor does it reflect an all-inclusive list of what constitutes a major life activity. A review of the cases from the legislative audit report reflects that counselors based their eligibility determination on the student’s visual impairment, as evidenced by their eyeglass prescriptions. Unfortunately, Section 110 of the Rehabilitation Act of 1973 (Rehabilitation Act), as amended by the Workforce Innovation and Opportunity Act (WIOA), does not permit the use of PRE-ETS funds for the payment of administrative costs. Thus, a counselor is not allowed to use such funds to perform assessments to determine the extent of the child’s disability. Part 405 of the Louisiana Rehabilitation Services, Technical Assistance and Guidance Manual (TAGM) permits the vocational rehabilitation counselor to utilize their professional judgment when determining whether impairments are substantially limiting.

It is also noted that the agency recently received guidance from the Rehabilitation Services Administration (RSA) in response to an inquiry from the state, regarding the documentation requirements for PRE-ETS. This guidance indicates that even a “referral form for pre-employment transition services with the identification of a student’s disability, signed by school staff...” would be allowable in order to document the presence of a disability for eligibility purposes.⁴ This certainly suggests an effort to minimize the documentation requirements associated with the VR program.

LWC asserts that even after more than three years following the passage of this legislation, there is still a significant degree of confusion among state leaders in the VR agencies, regarding how PRE-ETS interfaces with the Order of Selection; the nexus between PRE-ETS and the VR Program; acceptable documentation to

² Cornell Law School, Legal Information Institute, 22 CFR 217.3 (accessed at <https://www.law.cornell.edu/cfr/text/22/217.3>)

³ Ibid.

⁴ Email dated January 25, 2017 from Jim Doyle, V.R. Program Specialist

establish the presence of disability; and the distinctions between “student with a disability” and “youth with a disability.”⁵

In summary, LWC concurs with this finding, but offers the above as a summary of the unique circumstances that led to the improper determinations, specifically: (1) the congressional intent of a broad legal interpretation of disability, (2) that a prescription for eyeglasses, at a minimum, would appear to satisfy Section 504 definition of disability, and (3) Section 504 disability definitions allow latitude in determining what is “substantially limiting” and what constitutes a “major life activity.”

Corrective Action:

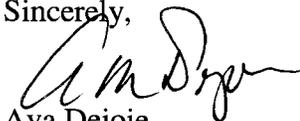
LRS immediately addressed the practice of using eyeglass prescriptions only to document eligibility in an email sent from Mark Martin, LRS Director, to all staff dated May 17, 2016. The email provided guidance to all staff concerning the definition of “potentially eligible,” and reiterated the requirement that documentation must either be an Individualized Education Plan (IEP), a 504 Plan, or medical documentation verifying that the student has a disabling condition pursuant to Section 504 of the Rehabilitation Act.

LRS reviewed and provided training on these requirements to the Regional Managers in a meeting held September 20-21, 2017. The training included a review of the applicable portions of the TAGM relative to the documentation requirements for eligibility for PRE-ETS. Evidence of completion is an agenda that reflects the topics and participant sign-in sheets. Mark Martin (LRS Director) and Kenneth York (LRS Assistant Director) were responsible for this corrective action, which was completed on September 21, 2017.

LRS will conduct statewide training in all regions to reinforce compliance with documentation requirements regarding eligibility for PRE-ETS. This training will include a review of the agency’s TAGM and the applicable federal regulations. Evidence of completion will include an agenda that reflects the topics and participant sign-in sheets. Shelly Hebert (LRS Rehabilitation Program Manager) will be responsible for this corrective action which will be completed by October 31, 2017.

Thank you for the opportunity to respond to this finding. The Louisiana Workforce Commission is committed to providing quality services to individuals with disabilities in a manner that responds to their unique needs.

Sincerely,



Ava Dejoie
Executive Director
Louisiana Workforce Commission

⁵ Email chain from Nrli seminar dated September 5, 2017



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Office of Workforce Development

September 6, 2017

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RE: LWC Response to Legislative Audit Finding—Untimely Development of Individualized Plans for Employment

This is in response to the Legislative Audit findings communicated to the Louisiana Workforce Commission (LWC) in the letter dated August 25, 2017.

LWC Response:

LWC concurs that 4 out of 25 (16%) of the Individualized Plans for Employment (IPE) reviewed were not completed within the required timeframe.

Corrective Action:

LRS will be installing an upgrade to the AWARE case management system when it becomes available in late September 2017. This upgrade will require that all IPEs anticipated to exceed 90 days for completion, from the date of an eligibility determination, shall include a document containing an agreed upon extension date, as evidenced by the signatures of the consumer and counselor. This version will contain a tickler system that will generate reports at the 45-day mark to allow managerial staff to track compliance with this requirement.

LRS will conduct statewide training in all regions to reinforce compliance with timelines related to development of the IPEs, as reflected in the agency's Technical Assistance and Guidance Manual (TAGM) and the applicable federal regulations. Evidence of completion will include an agenda that reflects the topics and participant sign-in sheets. The training will include appropriate citations from the TAGM and the documentation required, if development of the IPE is expected to extend beyond the established timeframe. Shelly Hebert (LRS Rehabilitation Program Manager) will be responsible for this corrective action which will be completed by October 31, 2017.

Thank you for the opportunity to respond to this finding. The Louisiana Workforce Commission is committed to providing quality services to individuals with disabilities in a manner that responds to their unique needs.

Sincerely,

Ava Dejoie
Executive Director
Louisiana Workforce Commission



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Ava Dejoie, Executive Director

Office of the Executive Director

September 8, 2017

Mr. Daryl G. Purpera, CPA, CFE
Louisiana Legislative Auditor
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RE: Inadequate Controls over Federal Reporting Requirements

The Louisiana Workforce Commission respectfully submits its responses to your reportable audit findings. For the reasons outlined herein, we concur with the audit finding.

Due to a staff shortage, the RSA2 and federal 425 reports were completed and submitted by one employee in the fiscal unit. As a consequence, the reports were not being reviewed, certified, and submitted by a separate employee. We have since hired an additional employee in the fiscal unit who has the responsibility of completing these reports. The report is then submitted to his supervisor who will review the report for accuracy, certify, and submit the report to the grantor independently. This corrective action should provide the needed controls to avoid future errors in federal reporting.

Should you have any questions or need additional information, please contact Bennett Soulier at 225-342-3110. With best regards, I am,

Sincerely,

A handwritten signature in black ink, appearing to read 'Ava M. Dejoie'.

Ava M. Dejoie
Executive Director



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John Bel Edwards, Governor
Ava DeJole, Executive Director

Office of the Executive Director

September 21, 2017

Daryl G. Purpera, CPA CFE, Legislative Auditor
1600 North Third Street
Box 94397
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Dear Mr. Purpera,

This is Louisiana Workforce Commission's (LWC) official response to the following reportable audit finding received from you September 21, 2017, entitled "Deficiencies in Control Over Payroll."

LWC concurs in full with this finding and offers the following information and corrective action plan.

1. The contact person responsible for this corrective action is Harlen Henegar (hhenegar@lwc.la.gov, 225 223-7479) and Laine Adkins (ladkins@lwc.la.gov, 225 342-3055) Human Resources Department.
2. LWC has already published a revised policy (Policy 65 Electronic Certification of Employee Time Statements) that lays out in detail responsibilities of all parties in the certification process from the employee up to the appointing authority, and specific procedures and timelines associated with meeting those responsibilities. This new policy mirrors the Division of Administration policy and Civil Service Rules.
3. LWC will specifically designate timekeeping duties to be part of the formal duties of the "position" of any individual "appointed" as a timekeeper. Timekeeping and Certification/Approval duties and responsibilities will be included in the Technical Competency section of the Performance Evaluation System plan and rating for timekeepers and supervisors at all levels.
4. Individuals assigned timekeeping duties will be formally appointed to those duties, in writing, by the appointing authority.
5. There will no longer be a "backup" designation for any position assigned timekeeping duties. Moving forward, each position assigned timekeeping duties will have access to two (2) timekeeping groups, this will allow for vacation/sick leave/turnover coverage – in those rare instances where both timekeepers assigned to a group are unavailable simultaneously during a payroll window, Human Resources will be responsible for timekeeping duties for those groups during that period.
6. In order to balance effort and to create a manageable structure, each timekeeping group will be comprised of about 20 employees. Therefore, LWC expects to have approximately 45 positions with timekeeping duties.
7. LWC will create a subdirectory its shared drive where timekeepers will be required to upload the reports they run to manage their timekeeper group (ZP 241, ZT 20, ZT24E and any other relevant report) at the end of each payroll period. There will be a discrete naming requirement along the lines of "ZT20_TK028_19_2017" which would mean timekeeper group 28 for pay period 19 in 2017.

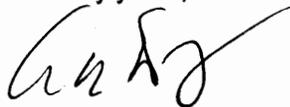
Mr. Daryl G. Purpera, CPA CFE, Legislative Auditor
September 21, 2017
Page 2

These reports would then be available for review by Human Resources or anyone with access. Timekeeper access to this subdirectory would be "SAVE" without the ability to change or overwrite, making the documents archival and auditable. Changes to these documents would then be designated as a "change" document providing an audit trail. Human Resources will review the archived timekeeper reports, and run the ZP 241 agency wide each pay period; monitoring for failed certify and approve, and changes.

8. Human Resources will be providing direct training to all appointed timekeepers using Civil Service rules, the new policy, and relevant details of this finding as a reference. Due to the critical nature of this initial training, it will be direct and "in residence" and will not be via "train the trainer" or "Skype/webinar." Refresher training will be set up as an annual requirement, along the lines of ethics, sexual harassment, etc.
9. The new policy is published, and in force. The training program development is well underway; its implementation will be championed by the appointing authorities. The formal appointment of timekeepers is underway. We anticipate completion of this corrective action plan to be not later than December 31, 2017.

Thank you for your cooperation and assistance in this matter.

Sincerely yours,



Ava Dejoie
Executive Director

APPENDIX B: SCOPE AND METHODOLOGY

We performed certain procedures at the Louisiana Workforce Commission (LWC) for the period from July 1, 2016, through June 30, 2017, to provide assurances on financial information significant to the State of Louisiana's Comprehensive Annual Financial Report (CAFR), and to evaluate relevant systems of internal control in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. The procedures included inquiry, observation, review of policies and procedures, and a review of relevant laws and regulations. Our procedures, summarized below, are a part of the audit of the CAFR and the Single Audit of the State of Louisiana (Single Audit) for the year ended June 30, 2017.

- 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 CAFR.
- We performed procedures on the Unemployment Insurance (CFDA 17.225) and the Rehabilitation Services - Vocational Rehabilitation Grants to States (CFDA 84.126) programs for the year ended June 30, 2017, as a part of the 2017 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, 2017, as a part of the 2017 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 CAFR, upon which the Louisiana Legislative Auditor expresses opinions.