OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

Financial-Related Audit

Department of Labor and Industry

SEPTEMBER 28, 2000 **00-47**

Financial Audit Division

The Office of the Legislative Auditor (OLA) is a professional, nonpartisan office in the legislative branch of Minnesota State government. Its principal responsibility is to audit and evaluate the agencies and programs of state government (the State Auditor audits local governments).

OLA's Financial Audit Division annually audits the state's financial statements and, on a rotating schedule, audits agencies in the executive and judicial branches of state government, three metropolitan agencies, and several "semi-state" organizations. The division also investigates allegations that state resources have been used inappropriately.

The division has a staff of approximately fifty auditors, most of whom are CPAs. The division conducts audits in accordance with standards established by the American Institute of Certified Public Accountants and the Comptroller General of the United States.

Consistent with OLA's mission, the Financial Audit Division works to:

- Promote Accountability,
- Strengthen Legislative Oversight, and
- Support Good Financial Management.

Through its Program Evaluation Division, OLA conducts several evaluations each year and one best practices review.

OLA is under the direction of the Legislative Auditor, who is appointed for a six-year term by the Legislative Audit Commission (LAC). The LAC is a bipartisan commission of Representatives and Senators. It annually selects topics for the Program Evaluation Division, but is generally not involved in scheduling financial audits.

All findings, conclusions, and recommendations in reports issued by the Office of the Legislative Auditor are solely the responsibility of the office and may not reflect the views of the LAC, its individual members, or other members of the Minnesota Legislature.

This document can be made available in alternative formats, such as large print, Braille, or audio tape, by calling 651-296-1727 (voice), or the Minnesota Relay Service at 651-297-5353 or 1-800-627-3529.

All OLA reports are available at our Web Site: http://www.auditor.leg.state.mn.us

If you have comments about our work, or you want to suggest an audit, investigation, evaluation, or best practices review, please contact us at 651-296-4708 or by e-mail at auditor@state.mn.us

OFFICE OF THE LEGISLATIVE AUDITOR
State of Minnesota • James Nobles, Legislative Auditor

Representative Dan McElroy, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Ms. Gretchen Maglich, Commissioner
Department of Labor and Industry

We have audited selected financial activities within the Department of Labor and Industry for the period July 1, 1996, through December 31, 1999, as further explained in Chapter 1. Our audit scope included workers' compensation and OSHA fines and penalties; logger assessments; license and fee revenues; payroll and administrative expenditures, including rent, utilities, professional and technical services, travel, supplies and equipment; and safety grants. The audit objectives and conclusions are highlighted in the individual chapters of this report. We emphasize that this has not been a comprehensive audit of the Department of Labor and Industry.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, as issued by the Comptroller General of the United States. Those standards require that we obtain an understanding of management controls relevant to the audit. The standards also require that we design the audit to provide reasonable assurance that the Department of Labor and Industry complied with provisions of laws, regulations, and contracts significant to the audit. The management of the Department of Labor and Industry is responsible for establishing and maintaining the internal control structure and for compliance with applicable laws, regulations, and contracts.

This report is intended for the information of the Legislative Audit Commission and the management of the Department of Labor and Industry. This restriction is not intended to limit the distribution of this report, which was issued as a public document on September 28, 2000.

/s/ James R. Nobles

James R. Nobles
Legislative Auditor

/s/ Claudia J. Gudvangen

Claudia J. Gudvangen
Deputy Legislative Auditor

End of Fieldwork: June 15, 2000

Report Signed On: September 25, 2000

Room 140, 658 Cedar Street, St. Paul, Minnesota 55155-1603 • Tel: 651/296-4708 • Fax: 651/296-4712
E-mail: auditor@state.mn.us • TDD Relay: 651/297-5353 • Website: www.auditor.leg.state.mn.us

Table of Contents

Page

Report Summary	1
Chapter 1. Introduction	3
Chapter 2. Revenues	5
Chapter 3. Payroll and Administrative Expenditures	9
Chapter 4. Grant Expenditures	13
Status of Prior Audit Issues	17
Department of Labor and Industry's Response	19

Audit Participation

The following members of the Office of the Legislative Auditor prepared this report:

Claudia Gudvangen, CPA	Deputy Legislative Auditor
Brad White, CPA, CISA	Audit Manager
Steven Johnson, CPA	Auditor-In-Charge
Heather White	Auditor
Kathy Fisher	Auditor

Exit Conference

We discussed the findings and recommendations with the following representatives of the Department of Labor and Industry at the exit conference held on September 13, 2000:

Gretchen Maglich	Commissioner
Michael Houliston	Deputy Commissioner
Roslyn Wade	Assistant Commissioner
James Collins	Director, MNOSHA Consultation Division
Cindy Farrell	Chief Financial Officer
John Kufas	Accounting Officer

Report Summary

The Department of Labor and Industry's internal controls provided reasonable assurance that assets were safeguarded, revenues and expenditures were accurately recorded in the state's accounting and payroll systems, and financial transactions were in compliance with applicable finance-related legal requirements and management's authorization. However, we noted the following internal control weaknesses during our review.

Key Findings:

- The department produced but did not review a key SEMA4 payroll system report. We recommended that the SEMA4 Payroll Register be reviewed by an employee independent of the input function to ensure the integrity of timesheet hours, payrates, and special transactions being processed. (Finding 1, page 12)

- The department did not establish reasonable timeframes on its safety grants and did not provide for timely management authorization. We recommended that the department review and modify its safety grant timeframes. (Finding 2, page 14)

Financial-Related Audit Reports address internal control weaknesses and noncompliance issues noted during our audits of state departments and agencies. The scope of our audit work at the Department of Labor and Industry included workers' compensation and OSHA fines and penalties, logger assessments, license fee revenues, and payroll and administrative expenditures, including rent, utilities, professional and technical services, travel, supplies, equipment, and safety grants. This has not been a comprehensive audit of the Department of Labor and Industry. We did not examine the Special Compensation Fund benefits and assessments in this audit since they are separately examined during our annual audit of the state's general-purpose financial statements. The department's response is included in the report.

This page intentionally left blank.

Chapter 1. Introduction

The Department of Labor and Industry strives for a safe and productive working environment for Minnesota's workplaces. It is a regulatory agency that operates under the authority of Minnesota Statutes, Chapters 175 through 186, and is responsible for enforcing compliance with workplace statutes and rules. The department's predominant customers are employees and employers in Minnesota, but it also works with medical providers, attorneys, insurance companies, government agencies, and local units of government.

The Department of Labor and Industry is primarily responsible for overseeing safety and workers' compensation programs. Pursuant to Minn. Stat. Section 176.129, the department manages the Special Workers' Compensation Fund, which is a primary source of revenue for the department. The department also generates license and fee revenues from specific industries and collects penalties and federal monies for the Occupational Safety and Health Act program.

Department programs are administered throughout the state. The central office is located in St. Paul with branch offices in various cities throughout greater Minnesota. The Department of Labor and Industry is under the leadership of Commissioner Gretchen Maglich. The department is divided into three divisions:

- **Workers' Compensation** - The division manages the Special Workers' Compensation Fund, maintains workers' compensation files and data, assists injured workers and their employers, monitors and enforces insurers' compliance with workers' compensation laws, administers claims for injured workers of uninsured or bankrupt employers, and provides vocational rehabilitation to injured workers.

- **Workplace Services –** The division works to prevent workplace injuries and illnesses, promote fair wages and working conditions, and assure a highly skilled and educated workforce. It manages the federal Occupational Safety and Health Act (OSHA) program by enforcing compliance and providing safety consultation. The division is also responsible for code administration and inspection services enforcement of high pressure piping, boilers and pressure vessels, and inland boats-for-hire.

- **General Support –** The division provides administrative support and management of the department. It provides services and information regarding research and statistics, information technology, legal advice and litigation, investigative services, finance and accounting, communications, and human resources.

The department has several funding sources including the General Fund and Federal Funds. Table 1-1 summarizes the department's financial activities for the three fiscal years ending June 30, 1999. The department's predominant source of funds is the Special Workers' Compensation Fund, which generates revenues from assessments to insurance companies and self-insured employers and pays workers' compensation benefits for certain workers. We did not audit these Special Compensation Fund assessment revenues and benefit expenditures during this audit; however, these material financial activities are examined during our annual audit of the state's financial statements.

Table 1-1
Department of Labor and Industry
Sources and Uses of Funds
Fiscal Years 1997 through 1999

	1997	1998	1999
Sources:			
Appropriations [(1)]	$100,680,395	$131,556,401	$121,680,831
Receipts	5,617,085	6,577,521	6,984,346
Balance Forward In	3,980,553	2,475,114	3,735,276
Total Sources	$110,278,033	$140,609,036	$132,400,453
Uses:			
Payroll	$ 19,075,997	$ 20,337,553	$ 19,284,562
Rent	1,745,797	1,704,645	1,842,669
Travel	555,394	685,729	634,060
Goods and Services	4,352,324	3,406,253	3,484,698
Grants	514,408	1,856,035	1,874,012
Other Expenditures	3,187,636	2,849,544	2,709,553
Workers' Compensation Benefits	78,972,378	106,030,014	98,282,496
Total Uses	$108,403,934	$136,869,773	$128,112,050
Transfers			
Transfers-In	$ 687,615	$ 0	$ 0
Transfers-Out [(2)]	(86,600)	(3,987)	(2,273,986)
Total Transfers	$ 601,015	$ (3,987)	$ (2,273,986)
Balance Forward Out	$ 2,475,114	$ 3,735,276	$ 2,014,417

Note 1: Annual appropriations are shown net of related cancellations and include open appropriations for the Special Workers' Compensation Fund tax assessment revenues, which are appropriated to the department for workers' compensation benefits and claims.

Note 2: The 1998 Legislature transferred the Judicial Services Unit from the Department of Labor and Industry to the Office of Administrative Hearings. During fiscal year 1999, the department transferred out $2.2 million to the Office of Administrative Hearings for the operations of this unit.

Source: Minnesota Accounting and Procurement System (MAPS) for fiscal years 1997, 1998, and 1999.

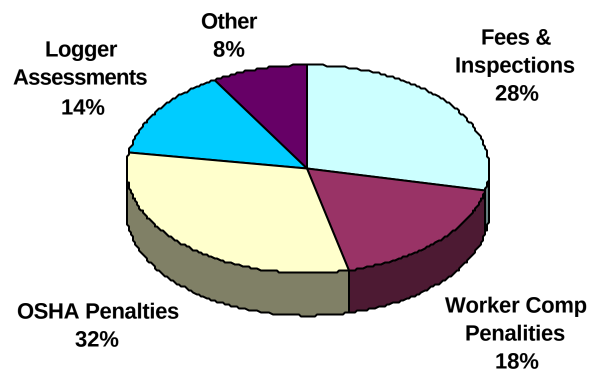
Chapter 2. Revenues

Chapter Conclusions

The Department of Labor and Industry's internal controls provided reasonable assurance that fees for inspections, permits, assessments, licenses, and fines and penalties were properly assessed and collected and were accurately recorded in the accounting records. For the items tested, the department complied with financial-related legal provisions governing fee and license rates, due dates, and prompt deposit of receipts.

The Department of Labor and Industry collected approximately $25 million in revenues for various licenses, fees, fines, and penalties it issued during the audit period. Figure 2-1 shows the percentage of revenues received from license and inspection fees, workers' compensation fines and penalties, Occupational Safety and Health Act (OSHA) fines and penalties, and logger assessments for the last three and one-half fiscal years.

Figure 2-1
Receipts by Type
July 1, 1996, through December 31, 1999



Note: The financial activity above excludes Special Compensation Fund assessment revenues collected by the department.

Source: Minnesota Accounting and Procurement System (MAPS) for fiscal years 1997, 1998, 1999, and 2000.

Department of Labor and Industry

Code Services

The Workplace Services Division's Code Administration and Inspection Services Unit deals primarily with boilers and high pressure piping, as specified in Minn. Stat. Chapter 183. The unit collects fees for permits and licenses issued to boiler operators, boat pilots, pipefitters, and pipefitting contractors, pursuant to Minn. Stat. Section 326.47. It also inspects boilers and the manufacturing and repair of boilers, boats for hire, and high pressure piping systems. An exemption fee is charged when boilers are inspected by insurers. Permits are issued for the installation and construction of high pressure piping systems. During fiscal year 1999, the department generated nondedicated revenues totaling approximately $1.9 million for fees, licenses, permits, and inspections.

The department is in the process of developing a new information system to control permits, licenses, and inspection fees. The current information system, Mapper, was not designed to handle billing and accounts receivable information in the most efficient manner. As a result, the department has had to supplement its current system with additional spreadsheets, database files, or paper documentation.

Workers' Compensation Penalties

The Compliance Services Unit of the Workers' Compensation Division is responsible to ensure that required work-related injury reports are received from employers, self-insured employers, workers' compensation insurance carriers, and health care providers in the time period required by statute, and that benefits are accurately paid to injured workers in a timely manner. The department has determined that educating employers and insurers is an effective compliance strategy. Division resources are being used to monitor and target non-compliant companies, and fines and penalties are issued to create an incentive for compliance. During fiscal year 1999, the department collected $1.2 million in workers' compensation fines and penalties and deposited them into the Special Compensation Fund.

Occupational Safety and Health Act Penalties

The Minnesota Occupational Safety and Health Act (MNOSHA) Unit assesses and collects fines and penalties for violations of MNOSHA standards, in accordance with Minn. Stat. Section 182.666. All penalties are assessed when the citation becomes a final order of the commissioner and are due and payable 20 days after the employer has received the citation by certified mail. During fiscal year 1999, MNOSHA collected nearly $2.6 million in penalties. The proceeds are used to offset the cost of the state contribution to the federal OSHA program.

Logger Assessments

Assessments collected from wood mills create the Logger's Targeted Industry Fund. This fund ensures that Minnesota loggers are provided safety training that is relevant to this high hazard industry. The current revenue of approximately $875,000 per year is sufficient to meet the needs of workers in this industry. There is an assessment imposed, at the rate of 30 cents per cord of wood, for every cord or equivalent measurement of wood in excess of 5,000 cords, purchased or acquired in any calendar year, either inside or outside the state, by a wood mill located in Minnesota. This assessment must be paid by the wood mill to the commissioner on or before February 15 for the previous calendar year and may not, in any way, be recovered by the wood mill from the logging industry. All revenue collected from this assessment is deposited in a separate account in the Special Compensation Fund to fund loggers' safety and education programs. Pursuant to Minn. Stat. Section 176.130, Subd. 11, the department funded $125,000 for logger safety and education programs in 1999. Subd. 6 further requires any additional monies collected to be allocated back to qualifying employers through an annual rebate. The department paid rebates that totaled approximately $750,000 in fiscal year 1999.

Audit Objectives and Methodology

Our review of fees for inspections, permits, assessments, licenses, and fines and penalties focused on the following questions:

- Did department internal controls provide reasonable assurance that the appropriate amounts were assessed, collected, adequately safeguarded, and accurately reported in the accounting records?

- Did the department comply with material finance-related legal provisions for transactions tested?

To answer these questions, we interviewed department employees to gain an understanding of the controls in place over the assessment, billing, receipt and collection process for inspection, permit, assessment, license, and fine and penalty revenues. We analyzed annual revenue trends over the audit period, compared amounts recorded on department records to amounts in the state treasury, and tested revenue transactions posted to the accounting system.

Conclusions

The Department of Labor and Industry's internal controls provided reasonable assurance that fees for inspections, permits, assessments, licenses, and fines and penalties were properly assessed and collected and were accurately recorded in the accounting records. For the items tested, the department complied with financial-related legal provisions governing fee and license rates, due dates, and prompt deposit of collections.

This page intentionally left blank.

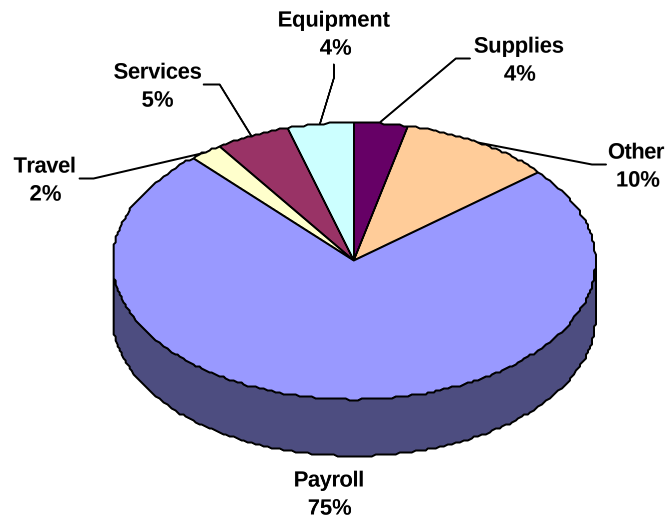
Chapter 3. Payroll and Administrative Expenditures

Chapter Conclusions

The Department of Labor and Industry's internal controls provided reasonable assurance that payroll and administrative expenditures were accurately paid to employees and vendors, in compliance with applicable finance-related legal provisions and management's authorizations, and were properly recorded in the state's accounting system. However, we found that the department did not review a key SEMA4 control report used to verify the integrity of payroll transactions. For items tested, the department properly compensated and reimbursed its employees in accordance with the applicable compensation plan or bargaining unit agreement, properly procured goods and services, and paid vendors in a timely manner.

The Department of Labor and Industry incurred over $104 million for payroll and administrative costs over the audit period. Figure 3-1 shows the percentage of the department's expenditures for payroll, travel, rent, goods, services, equipment, and other expenditures.

Figure 3-1
Administrative Expenditures by Type
July 1, 1996, through December 31, 1999



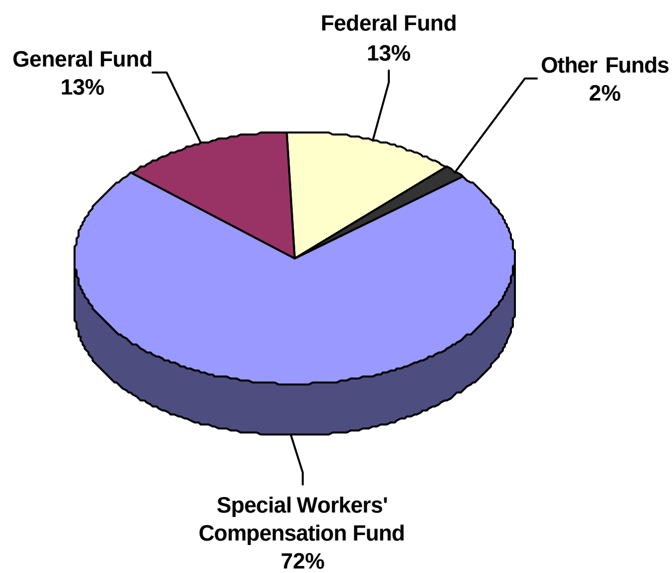
Note: The financial activity above excludes Special Compensation Fund benefits paid by the department.

Source: Minnesota Accounting and Procurement System (MAPS) for fiscal years 1997, 1998, and 1999.

Department of Labor and Industry

The Special Workers' Compensation Fund finances the largest percentage of the department's administrative costs. Also, General Fund appropriations and federal grants provide funding. The Occupational Safety and Health Act (OSHA) grant is the largest federal program administered by the department. Figure 3-2 shows the percentage of expenditures for each fund over the audit period.

Figure 3-2
Expenditures by Fund
Three and One-Half Fiscal Years Ending December 31, 1999



Source: Minnesota Accounting and Procurement System (MAPS) for fiscal years 1997, 1998, 1999, and 2000.

Payroll

Personnel and payroll costs are the largest operating expenditure for the Department of Labor and Industry. The department employed approximately 400 staff who were paid bi-weekly through the state's payroll system. The Department of Labor and Industry's payroll costs were about $19.3 million in fiscal year 1999.

Travel

The department paid $634,000 in annual travel-related expenditures for the fiscal year ending June 30, 1999. The nature of the department's operations require that its employees travel to perform their job duties. For example, code inspectors must cover the entire state to administer examinations and inspect high-pressure piping and or boilers.

Other Administrative Expenditures

The Department of Labor and Industry spent approximately $8 million on other administrative expenditures during fiscal year 1999. Expenditures consisted of rent, repairs and maintenance, printing, mailing, and shipping services; supplies, materials and parts, and equipment; and other purchased services. Table 3-3 shows other administrative expenditures by type for fiscal year 1999.

Table 3-3
Other Administrative Expenditures by Type
Fiscal Year 1999

Rent	$1,842,669
Services	2,165,439
Equipment	1,120,093
Supplies	844,061
Other	2,064,658
Total	$8,036,920

Source: Minnesota Accounting and Procurement System (MAPS) for fiscal year 1999.

Audit Objectives and Methodology

Our audit objectives for payroll and administrative expenditures focused on the following questions:

- Did the Department of Labor and Industry's internal controls provide reasonable assurance that payroll, travel reimbursements, and other expenditures were appropriately authorized based on work performed, accurately recorded in the accounting system, and in compliance with applicable finance-related legal provisions and management's authorization?

- Did the department accurately compensate its employees and reimburse travel costs in accordance with the provisions of the state's Managerial or Commissioner's Plans and employee bargaining unit agreements?

- Did the department properly procure goods and services and timely pay vendors in accordance with finance-related legal provisions?

To answer these questions, we interviewed employees to gain an understanding of the internal control structure over payroll and other expenditure processing. We performed analytical procedures to determine the reasonableness of payroll and expenditure trends over the audit period. Transactions were tested to determine if the department paid its employees in compliance with compensation plans and bargaining unit agreements, accurately paid vendors for goods received and work performed, and complied with applicable finance-related legal provisions and management's authorization. We also determined whether the department properly recorded expenditures in the accounting system and sufficiently safeguarded its fixed assets using effective inventory controls. Finally, we tested employee computer access to the state's payroll and accounting systems to determine that access rights were compatible and necessary to perform job responsibilities.

Conclusions

The Department of Labor and Industry's internal controls provided reasonable assurance that payroll and other administrative expenditures were accurately paid to employees and vendors, in compliance with applicable finance-related legal provisions and management's authorizations, and were properly recorded in the state's accounting system. However, we found that the department did not review a key SEMA4 control report used to verify the integrity of payroll transactions. For the items tested, the department properly compensated and reimbursed its employees in accordance with the applicable compensation plan or bargaining unit agreement, properly procured goods and services, and timely paid vendors.

1. The department did not verify the integrity of payroll transactions entered into SEMA4.

The Department of Labor and Industry lacked a critical independent review of a key SEMA4 biweekly payroll processing report. Department of Finance SEMA4 Policy PAY0028 requires all agencies to review compensated hours and payrates being processed. The policy identifies two critical SEMA4 reports that must be produced and reviewed each pay period:

- The *Payroll Register* identifies employee payrates and timesheet hours worked and leave taken. A review of this report will provide assurances about the hours and payrates and special lump-sum or retroactive adjustment transactions being processed for upcoming paychecks.

- The *Payroll Posting Audit Trail* identifies payroll expenditures, including gross pay plus employer contributions for FICA, retirement and insurance that were posted to the department accounts in the state's accounting system.

We found that the department produced and distributed the SEMA4 Payroll Posting Audit Trail to divisional supervisors. The SEMA4 Payroll Register was produced; however, the department did not assign someone the responsibility to verify payroll hours, rates, and special transactions posted on SEMA4. Without an independent verification, the department increases the risk that inaccurate posting of hours or special transactions could occur and go undetected.

Recommendation

- *The Department of Labor and Industry should provide for an independent review of the SEMA4 Payroll Register to ensure the integrity of timesheet hours, payrates, and special transactions being processed.*

Chapter 4. Grant Expenditures

Chapter Conclusions

The Department of Labor and Industry's internal controls provided reasonable assurance that grant expenditures were accurately paid, properly recorded in the state's accounting system, and processed in accordance with applicable finance-related legal provisions and management's authorizations. However, we noted the department had established unreasonably tight timeframes for recipients to complete the grant due to untimely authorization of the grant agreements. The grant agreements also failed to include an additional 90 days to complete the project, once approved by the department. For the items tested, the department complied with finance-related legal provisions concerning grant limits, reimbursement timeframes, and local matching requirements.

The department provided grants to local governments and private organizations for workplace safety, training, and apprenticeship programs. The department spent approximately $1.7 million annually for grants funded from the Special Compensation Fund, as well as state and federal sources. The largest grants were Workplace Safety Grants, which are funded from workers' compensation penalties.

The department awarded Workplace Safety Grants up to $10,000 to qualifying private sector employers for the cost of implementing safety recommendations made under Minn. Stat. Section 79.253. Projects are designed to reduce the risk of injury and illness to workers. Grants are awarded to those best satisfying the safety program's goals, including eligibility and evaluation criteria. If the number of qualified applicants exceeds the availability of funds, applications are evaluated based on various factors established in statute and rule. The grant program is funded from the Assigned Risk Safety Account, which was created to promote workplace safety and health programs. The account's primary revenue source is workers' compensation penalties deposited into the Special Compensation Fund. During fiscal years 1997, 1998, and 1999, Workplace Safety Grant expenditures totaled $175,204, $659,064, and $678,345, respectively.

Audit Objectives and Methodology:

We focused our review of Workplace Safety Grant expenditures on the following objectives:

- Did the Department of Labor and Industry's internal controls provide reasonable assurances that grant expenditures were accurately paid, properly recorded in the state's accounting system, and processed in accordance with applicable finance-related legal provisions and management's authorization.

- Did the department comply with finance-related legal provisions concerning grant limits, reimbursement timeframes, and local match requirements.

To answer these questions, we interviewed department employees to gain an understanding of the internal control structure over the Workplace Safety Grant awarding, payment, and monitoring processes. We performed analytical tests to determine whether the total paid to each grantee was within grant limits. We also tested transactions to determine if the department properly authorized grant contracts, accurately recorded the expenditures in the state's accounting system, and complied with grant guidelines concerning the reimbursement timeframes and local match requirements.

Conclusions

The Department of Labor and Industry's internal controls provided reasonable assurance that grant expenditures were reasonable, were properly recorded in the state's accounting system, and processed in accordance with applicable finance-related legal provisions and management's authorizations. However, we noted the department had established unreasonably tight timeframes for recipients to complete the grant due to untimely authorization of the grant agreements. The grant agreements also failed to include an additional 90 days to complete the project, once approved by the department. For the items tested, the department complied with finance-related legal provisions concerning grant limits, reimbursement timeframes, and local matching requirements.

2. The department used unreasonable timeframes on its Workplace Safety Grant contracts and management authorization was not provided in a timely manner.

We noted some concern with the timing and authorization of Workplace Safety Grants. The Department of Labor and Industry generally allows two months for grant recipients to complete their Workplace Safety Grant projects. However, the department did not authorize its grant contracts until the grant period had nearly ended. In addition, the program application specifies that each grant project must be completed within 90 days after receiving a fully executed grant contract. We noted the grant contract was absent language specifying the additional 90 days provided to complete the grant.

The Department of Labor and Industry’s Workplace Safety Grant contracts were not timely authorized. For example, one grant for $10,000 was effective from October 1, 1998, until December 1, 1998. Program requirements indicate that work may not begin until the grant agreement is fully executed. The department authorized the grant contract on November 18, 1998, leaving less than two weeks to finish the grant. The Safety Grant contract included the following standard language:

> *This Grant Contract shall be effective on October 1, 1998, or upon the date that the final required signature is obtained by the state, pursuant to Minn. Stat. Section 16C.05, Subd. 2, whichever occurs <u>later</u>, and shall remain in effect until December 1, 1998, or until all obligations set forth in this Grant Contract have been satisfactorily fulfilled, whichever occurs <u>first</u>.*

The language created an unreasonable deadline to complete the grant within the timeframes given. We also found that the department's grant application allowed an additional 90 days to complete the work after the grant agreement was fully executed. However, the Workplace Safety Grant contracts used by the department failed to include necessary language providing the additional 90 days.

Without establishing a reasonable time period, and specifying all deadlines to complete the grant project, the department increases the risk that the grant work actually started before the contract was authorized or after the grant period ended.

Recommendation

- *The Department of Labor and Industry should reevaluate its Workplace Safety Grant timeframes, specify all deadlines in writing, and provide for timely authorization of grant contracts by management.*

This page intentionally left blank.

Status of Prior Audit Issues
As of June 15, 2000

Most Recent Audits

Legislative Audit Report 99-3, issued in January 1999, examined the department's activities and programs material to the State of Minnesota's Comprehensive Annual Financial Report for the year ended June 30, 1998. The scope included Special Workers' Compensation Fund tax assessment revenues, benefit expenditures, and the general long-term obligation for uninsured and bankrupt employers. No findings or recommendations were included in that audit report. Similarly, no concerns were raised during our most recent audit of the Special Workers' Compensation Fund financial statements for fiscal year 1999.

Legislative Audit Report 98-5, issued in February 1998, examined the department's activities and programs material to the State of Minnesota's Comprehensive Annual Financial Report for the year ended June 30, 1997. The scope included Special Workers' Compensation Fund tax assessment revenues, benefit expenditures, and the general long-term obligation. The report identified one issue concerning the inconsistent calculation of general long-term obligation estimates by department staff. To resolve the issue, the department implemented a new computerized system that estimates the funds' financial liability for uninsured injured workers.

State of Minnesota Audit Follow-up Process

The Department of Finance, on behalf of the Governor, maintains a quarterly process for following up on issues cited in financial audit reports issued by the Legislative Auditor. The process consists of an exchange of written correspondence that documents the status of audit findings. The follow-up process continues until Finance is satisfied that the issues have been resolved. It covers entities headed by gubernatorial appointees, including most state agencies, boards, commissions, and Minnesota state colleges and universities. It is not applied to audits of the University of Minnesota, any quasi-state organizations, such as the metropolitan agencies, or the State Agricultural Society, the state constitutional officers, or the judicial branch.

This page intentionally left blank.

444 Lafayette Road North
St. Paul, Minnesota 55155
www.doli.state.mn.us

Minnesota Department
of Labor and Industry

651-296-6107
TTY: 651-297-4198
1-800-DIAL-DLI

September 21, 2000

James R. Nobles
Legislative Auditor
Office of the Legislative Auditor
Centennial Office Building
658 Cedar Street
St. Paul, Minnesota 55155

Dear Mr. Nobles:

Thank you for the opportunity to review and comment on the findings addressed in the draft of your audit for the three and one-half years ending December 31, 1999 for our department. This draft report accurately reflects the material that your staff discussed with us at the exit conference on September 13, 2000.

We are pleased that you find our internal control environment to be effective. You made recommendations for improvement in two procedural areas. We find those recommendations are reasonable and have taken steps to address them. Enclosed is a summary of your recommendations with our action response.

I would like to thank you and your staff for your review of our operations. The audit of our department is an opportunity for operation improvements, and we view it as a healthy learning experience.

Sincerely,

/s/ Gretchen Maglich

Gretchen Maglich
Commissioner

Enclosure

Recommendation

The Department of Labor and Industry should provide for an independent review of the SEMA4 Payroll Register to ensure the integrity of timesheet hours, payrates, and special transactions being processed.

Action Response

In July of 2000, the Financial Services unit began to verify a sample of the biweekly timesheet documents against the SEMA4 Payroll Register. This new procedure will assist in identifying potential errors in the payroll process.

Recommendation

The Department of Labor and Industry should reevaluate its Workplace Safety Grant timeframes, specify all deadlines in writing, and provide for timely authorization of grant contracts by management.

Action Response

In July of 1999, the Workplace Safety Consultation unit began to use the date of the last signature on the grant agreement as the beginning date of the 90 day period allowed for grantees to complete their safety projects. This procedural change has helped to clarify the timeframes allowed to grantees for project completion.