



Financial-Related Audit

Department of Economic Security
State Dislocated Worker Program
Four Fiscal Years Ended June 30, 2000



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

Senator Ann H. Rest, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. Earl Wilson, Commissioner
Department of Economic Security

We have conducted a financial-related audit of the State Dislocated Worker Program, administered by the Department of Economic Security, for the period July 1, 1996, through June 30, 2000. 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 Economic Security's financial activities.

We conducted our audit in accordance with the standards applicable to financial audits contained in *Government Auditing Standards* 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 require that we design the audit to provide reasonable assurance that the Department of Economic Security complied with provisions of laws, regulations, contracts, and grants that are significant to the audit. Management of the Department of Economic Security was responsible for establishing and maintaining the internal control structure and complying with applicable laws, regulations, contracts, and grants.

This report is intended for the information of the Legislative Audit Commission and the management of the Department of Economic Security. This restriction is not intended to limit the distribution of this report, which was released as a public document on March 7, 2002.

/s/ James R. Nobles

/s/ Claudia J. Gudvangen

James R. Nobles
Legislative Auditor

Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

End of Fieldwork: January 29, 2002

Report Signed On: March 4, 2002

Department of Economic Security – State Dislocated Worker Program

Table of Contents

	Page
Report Summary	1
Chapter 1. Introduction	3
Chapter 2. Financial Overview	5
Chapter 3. Collection and Administrative Costs	9
Chapter 4. Subgrant Expenditures	15

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
Susan Rumpca, CPA	Auditor-in-Charge
Mark Mathison, CPA, CISA	Auditor
Irene Hass	Auditor

Exit Conference

The information in this report was discussed with the following officials of the Department of Economic Security and the Department of Trade and Economic Development at an exit conference held on February 27, 2002:

Department of Economic Security:

Earl Wilson	Commissioner
Al St. Martin	Deputy Commissioner
Mick Coleman	Associate Deputy Commissioner
Jim Korkki	Assistant Commissioner, Workforce Services
Bonnie Elsey	Assistant Commissioner, State Services for the Blind
Howard Glad	Assistant Commissioner, Rehabilitation Services
John Stavros	Chief Financial Officer
Mark Butala	Internal Security Director
Tim Langlie	Accounting Director
Lynne Batzli	Legislative Liaison

Department of Trade and Economic Development:

Rebecca Yanisch	Commissioner
-----------------	--------------

Department of Economic Security – State Dislocated Worker Program

Report Summary

Overall Conclusions

The Department of Economic Security (DES) properly recorded detailed financial activity for the State Dislocated Worker Program in its cost allocation system and properly recorded summary financial information in the state's accounting system. The department appropriately transferred the June 30, 2000, account balance of \$25 million to the Department of Trade and Economic Development (DTED).

The department allocated a share of unemployment insurance collection costs to the State Dislocated Worker Program based on a statutory authorization and an agreement with the United States Department of Labor. Administrative costs and subgrant expenditures complied with statutory limitations and other program guidelines.

Administrative costs charged to the program were lower during fiscal year 2001, when the program was managed by DTED. DTED's costs were lower than DES's because DTED had fewer employees working on the program than DES did, and DTED did not charge statewide or agency indirect costs to the program, while DES did. Also, during the last two years that DES managed the program, it added certain new functions or activities to the cost pool that previously had not been charged to the program. These new costs were allowable under program guidelines. DES continues to perform many of these functions, which can benefit various programs, including Dislocated Worker.

Program Background

The State Dislocated Worker Program provides employment and training programs to individuals dislocated from long-held jobs due to factors such as plant closings or mass layoffs, as well as job reductions from technological changes and changes in consumption and competition. The Department of Economic Security administered the State Dislocated Worker Program from 1991 until 2000. The Legislature transferred the program to the Job Skills Partnership Board, administered through the Department of Trade and Economic Development, effective July 1, 2000.

The complex nature of the Department of Economic Security's cost allocation system (referred to as the State Employment and Security Agency System or SESA) made it difficult for unfamiliar users to understand or assemble meaningful financial information. Several legislators and state agency officials expressed concerns about how DES managed the state program. These questions prompted us to examine the program's financial activities during the final four years the program was managed by DES. Questions also were raised about the level of administrative costs DES charged to the program in prior years as compared to the amounts currently charged by DTED.

Financial-Related Audit Reports address internal control weaknesses and noncompliance issues found during our audits of state departments and agencies. The scope of this audit included the State Dislocated Worker Program, administered by the Department of Economic Security, for fiscal years 1997 through 2000.

Department of Economic Security – State Dislocated Worker Program

This page intentionally left blank.

Chapter 1. Introduction

The State Dislocated Worker Program provides employment and training programs to individuals dislocated from long-held jobs due to factors such as plant closings or mass layoffs, as well as job reductions from technological changes and changes in consumption and competition. The goal of the program is to help dislocated workers quickly obtain new employment. The program provided three main types of services to dislocated workers:

- ***readjustment services*** for assessment, testing, job counseling, job development, and job search;
- ***retraining services*** such as classroom, on-the-job, and basic skills and literacy training for workers whose skills were not marketable; and
- ***supportive services*** for assistance in paying for health insurance, child care, transportation, and other emergency needs.

In addition, subgrantees received funding for administration of the various projects.

The United States Department of Labor provides funding for a similar program, the Federal Dislocated Worker Program.

The Department of Economic Security (DES) administered the State Dislocated Worker Program from 1991 until 2000. It also administered the federal program. The Legislature transferred the state and federal programs to the Job Skills Partnership Board, administered through the Department of Trade and Economic Development (DTED), effective July 1, 2000.

The State Dislocated Worker Program is funded by a special assessment on all taxable wages, as defined by the statutes governing the Unemployment Insurance Program. The special assessment is added to employers' unemployment insurance tax rate, and employers remit both the special assessment and the unemployment insurance tax to DES.

The Department of Economic Security used its cost accounting system, referred to as the State Employment and Security Agency System (or SESA), to track the financial activity for the State Dislocated Worker Program. SESA is a federally funded mainframe application that was developed to provide cost accounting for the Unemployment Insurance Program and the department's other federal programs. It allows the department to directly charge costs to specific programs and to proportionately allocate joint or pooled costs, as well as indirect costs, to various programs managed by the department. This allocation mechanism was approved by the federal government and was used in place of an indirect cost rate.

The complex and somewhat antiquated nature of the SESA cost allocation system makes it difficult for unfamiliar users to understand or assemble meaningful financial information.

Department of Economic Security – State Dislocated Worker Program

Several legislators and state agency officials expressed concerns about how DES managed the State Dislocated Worker Program. These questions prompted us to examine the program's financial activities during the final four years the program was managed by DES. Questions also were raised about the level of administrative costs DES charged to the program in prior years as compared to the amounts currently charged by DTED. Although we did not audit DTED expenditures, we reviewed accounting system information and met with DTED officials to gain an understanding of the differences in costs charged to the program by the two agencies. This report includes selected fiscal year 2001 DTED financial information for the State Dislocated Worker Program.

Chapter 2. Financial Overview

Chapter Conclusions

The Department of Economic Security properly compiled and recorded State Dislocated Worker Program detailed financial activity in its cost allocation system and properly recorded summary financial information in the state's accounting system. The department appropriately transferred the June 30, 2000, account balance of \$25 million to the Department of Trade and Economic Development.

Financial activity for the State Dislocated Worker Program is accounted for in the Workforce Development Fund, one of the state's Special Revenue Funds. During the audit period, detailed financial information for the program was recorded in the Department of Economic Security's SESA cost allocation system, with summary information recorded in MAPS¹, the state's accounting system. To ensure that the data in the two systems agreed, the department performed periodic reconciliations of financial activity. Prior to close of the books each fiscal year, the department initiated expenditure correction transactions in MAPS to balance total program expenditures to SESA. However, accurate expenditure breakdowns by type or category were not available in MAPS. The inability to separately identify collection cost and administrative cost components and difficulties in identifying expenditure corrections created concerns for users who attempted to determine program administrative costs using MAPS.

Table 2-1 provides a summary of the Workforce Development Fund's financial activity during the ten years the program was administered by the Department of Economic Security. A discussion of the major financial categories follows.

Tax Collections

Minn. Stat. (2001) Section 268.022 authorizes a tax to fund the State Dislocated Worker Program through a special assessment on all taxable wages, as defined by the statutes governing the Unemployment Insurance Program. The assessment rate was one-tenth of one percent (0.1%) per year until June 30, 2000, when it was reduced to seven-hundredths of one percent (0.07%) per year. The special assessment is added to employers' unemployment insurance tax rate. Employers remit both the unemployment insurance tax and the special assessment to the Department of Economic Security. DES deposits the special assessment collections in the Workforce Development Fund in the state treasury. During the four-year audit period, special assessment collections approximated \$30 million annually. Interest income on the fund's average cash balance was another source of revenue.

¹ MAPS stands for the Minnesota Accounting and Procurement System.

Department of Economic Security – State Dislocated Worker Program

Table 2-1
Workforce Development Fund
Summary of Financial Activity
1991 through 2000

Receipts:	
Tax Collections	\$229,820,278
Interest Income	<u>11,228,560</u>
Total Receipts	<u>\$241,048,838</u>
Transfers Out:	
Legislative Transfers to the General Fund	\$ 30,057,000
Legislative Transfers to Specific Programs	<u>33,373,750</u>
Total Transfers	<u>\$ 63,430,750</u>
Expenditures:	
Collection Costs	\$ 12,899,052
Administration	8,310,408
Subgrants	<u>131,117,296</u>
Total Expenditures	<u>\$152,326,756</u>
Balance Transferred to DTED	<u>\$ 25,291,332</u>

Source: Prepared by the Department of Economic Security.

Legislative Transfers

Since inception of the program, the Legislature has authorized appropriation transfers totaling \$63.4 million out of the Workforce Development Fund. The Legislature designated transfers of approximately \$30 million to the General Fund from 1991 to 1997. From 1998 through 2001, the Legislature transferred approximately \$33.4 million to specific job programs as shown in Table 2-2.

Table 2-2
Workforce Development Fund
Legislative Appropriation Transfers Out
1998-2001

	1998	1999	2000	2001	Total
Job Skills Partnership <small>(1999 Laws, Art 1, Ch. 223, Sec 2, Subd. 2)</small>	\$ 0	0	\$10,000,000	\$10,000,000	\$20,000,000
Welfare-to-Work <small>(1999 Laws, Art 1, Ch. 223, Sec 4, Subd. 4)</small>	0	0	5,000,000	0	5,000,000
Displaced Homemaker Program <small>(2000 Laws, Art 1, Ch. 488, Sec 7(c))</small>	0	0	0	1,827,000	1,827,000
Other Job Training Programs <small>(various appropriation laws)</small>	<u>775,000</u>	<u>775,000</u>	<u>2,717,000</u>	<u>2,281,000</u>	<u>6,548,000</u>
Total Appropriation Transfers	<u>\$775,000</u>	<u>\$775,000</u>	<u>\$17,717,000</u>	<u>\$14,108,000</u>	<u>\$33,375,000</u>

Source: Auditor prepared from Minnesota Appropriation Laws.

Department of Economic Security – State Dislocated Worker Program

Expenditures

There were three general expenditure categories for the Dislocated Worker Program – collection costs, administrative costs, and subgrants. Minn. Stat. (2000) Section 268.022, Subd. 2 provided guidance on the disbursement of special assessment funds during the time the program was administered by DES. Subd. 2 provided, in part:

- (c) No more than five percent of the funds collected in each fiscal year may be used by the Department of Economic Security for its administrative costs.
- (d) Reimbursement for costs related to collection of the special assessment shall be in an amount negotiated between the commissioner and the United States Department of Labor.
- (e) The funds appropriated to the commissioner, less amounts under paragraphs (c) and (d) shall be allocated as follows:
 - (1) 40 percent to be allocated annually to substate grantees for provision of expeditious response activities under section 268.9771 and worker adjustment services under section 268.9781; and
 - (2) 60 percent to be allocated to activities and programs authorized under sections 268.975 to 268.98.

We provide an explanation and discussion of administrative and collection costs in Chapter 3 and of subgrants in Chapter 4.

Transfer of Funds to DTED

Administrative responsibility for the State Dislocated Worker Program transferred to the Department of Trade and Economic Development (DTED) effective July 1, 2000. The Department of Economic Security transferred the June 30, 2000, account balance of \$25,291,332 to DTED. The department transferred \$10.9 million in July 2000, \$13 million in September 2000, and \$1.4 million in December 2000.

Audit Objectives and Methodology

Our review focused on the following questions:

- Did the Department of Economic Security properly compile and record the State Dislocated Worker Program financial activity in the SESA and MAPS accounting systems?
- Did the department transfer the correct amount of remaining program funds to the Department of Trade and Economic Development?

Department of Economic Security – State Dislocated Worker Program

To answer these questions, we discussed the department's use of the SESA cost accounting system and reviewed the coding of transactions for reasonableness. We obtained a summary of Workforce Development Fund financial activity from 1991 through 2000 and recalculated selected balances. We traced account balances to the SESA cost accounting ledgers and reviewed supporting documentation for specific accounts. We also discussed the department's recording of program financial activity on MAPS, the state's accounting system, and reviewed reconciliations of financial activity between SESA and MAPS.

To conduct our annual audits of the department, we obtained electronic files of SESA cost accounting and time distribution transactions. We reconciled the SESA detailed transactions to the change in the cumulative general ledger balances each year. This data allowed us to use computer assisted audit techniques to analyze SESA expenditure and grant data over the four-year audit period.

For assessment collections, we traced receipts to a log maintained by the department. The source of the log is a report from the unemployment insurance tax system that shows the distribution of receipts between unemployment insurance taxes and the dislocated worker assessment. During prior statewide audits, we verified the amounts included in the unemployment insurance tax system reports. For the period July 1, 1995, to June 30, 2001, we compared the amounts on the log to state treasury deposits in MAPS coded to the State Dislocated Worker Program. In addition, we traced the interest income earned from July 1, 1995, to June 30, 2001, to MAPS deposit transactions.

We traced total legislative transfers to SESA cost accounting system reports and MAPS transfer transactions. Appropriation transfers for fiscal years 1996 through 2001 were verified to applicable laws to ensure that the transfers were authorized and made for the proper amount. We also verified that the department transferred the appropriate State Dislocated Worker Program balance to DTED and determined that the transfers were identified and properly recorded in MAPS.

The specific audit objectives, methodology, and conclusions for our review of collection and administrative costs and subgrants are discussed in Chapters 3 and 4.

Conclusions

The Department of Economic Security properly compiled and recorded State Dislocated Worker Program detailed financial activity in its SESA cost allocation system and properly recorded summary financial information in MAPS, the state's accounting system. The department appropriately transferred the June 30, 2000, account balance of \$25 million to the Department of Trade and Economic Development.

Chapter 3. Collection and Administrative Costs

Chapter Conclusions

The Department of Economic Security allocated a share of unemployment insurance collection costs to the State Dislocated Worker Program based on a statutory authorization and an agreement with the federal Department of Labor. Administrative costs funded by the State Dislocated Worker Program complied with statutory limitations.

Administrative costs charged to the program were lower during fiscal year 2001, when the program was managed by DTED. DTED's costs were lower than DES's because DTED had fewer employees working on the program than DES did and DTED did not charge statewide or agency indirect costs to the program, while DES did. Also, during the last two years that DES managed the program, it added certain new functions or activities to the cost pool that previously had not been charged to the program. These new costs were allowable under program guidelines. DES continues to perform many of these functions, which can benefit various programs, including Dislocated Worker.

The SESA system allows the department to directly charge specific costs to individual programs and to proportionately allocate joint or pooled costs. SESA used three methods to assign costs:

- **Direct costs** directly benefit or relate to specific programs. All subgrants and a majority of payroll expenditures were recorded as direct costs. About 76 percent of the program's payroll and non-payroll administrative expenditures were direct costs.
- **Pooled costs** are allocated across programs within individual cost centers. For example, a copy machine benefits many programs in a workforce center. The department used SESA to allocate the copy machine's costs among the various programs that benefited.
- **Agency indirect costs** are allocated across all programs administered by the agency. These costs benefit many programs or cost centers. The commissioner's salary is an example of an agency indirect cost.

In addition, the department charged collection costs to the State Dislocated Worker Program, as discussed later in this chapter.

Table 3-1 shows collection and administrative costs charged to the State Dislocated Worker Program by the Department of Economic Security for fiscal years 1997 through 2000. For comparative purposes, we have included collection costs charged to the program in fiscal year 2001 and administrative costs incurred by the Department of Trade and Economic Development during that year, as recorded on the state's accounting system.

Department of Economic Security – State Dislocated Worker Program

**Table 3-1
State Dislocated Worker Program
Collection and Administrative Costs
Fiscal Years 1997-2001**

	1997	1998	1999	2000	2001 ⁽¹⁾
Collection Costs ⁽²⁾	<u>\$1,386,515</u>	<u>\$1,378,001</u>	<u>\$1,645,806</u>	<u>\$1,546,161</u>	<u>\$1,610,669</u>
Agency Administrative Costs ⁽³⁾					
Personnel and Benefits	\$ 787,103	\$ 669,962	\$ 740,046	⁽⁴⁾ \$1,075,551	\$ 390,296
Labor Market Analysts ⁽⁵⁾	0	0	250,000	250,000	0
Rent	11,306	6,986	14,106	26,100	1,649
Supplies	40,147	30,560	32,586	37,006	15,995
Communications	19,806	17,823	16,653	23,465	10,931
Services	132,857	75,950	172,943	15,941	115,719
Travel	12,839	12,822	30,712	19,196	9,976
Equipment	75,664	95,452	86,264	52,961	36,679
Other	11,499	14,835	45,737	12,280	⁽⁶⁾ 266,745
Total Administrative Costs	<u>\$1,091,221</u>	<u>\$ 924,390</u>	<u>\$1,389,047</u>	<u>\$1,512,500</u>	<u>\$ 847,990</u>
 Total Collection and Administrative Costs	 <u>\$2,477,736</u>	 <u>\$2,302,391</u>	 <u>\$3,034,853</u>	 <u>\$3,058,661</u>	 <u>\$2,458,659</u>

Note (1) Fiscal Year 2001 amounts are unaudited and are presented for information purposes only. The State Dislocated Worker Program was administered by the Department of Economic Security (DES) during fiscal years 1997 through 2000. The Department of Trade and Economic Development (DTED) began administering the program in fiscal year 2001. DES collected the special tax assessment that finances the program during the entire period.

Note (2) Collection costs are reimbursements for the costs incurred by DES for collection of the special assessment tax through the Unemployment Insurance Program. The costs are based on a rate negotiated with the U.S. Department of Labor, as authorized by Minn. Stat. (2001) Section 268.022, Subdivision 2. When DES administered the program, it recorded gross tax collections and collection costs in the program account. In fiscal year 2001, DES deducted the collection cost reimbursements from tax collections and transferred the net amount to DTED.

Note (3) Administrative costs during the time the program was administered by DES include direct program costs and an allocated portion of other costs indirectly benefiting the program. DES allocated both statewide and departmental indirect costs to the program each year. These costs approximated \$300,000 for fiscal year 2000. DTED costs for fiscal year 2001 include only direct costs. DTED did not allocate departmental indirect costs to the program. Instead, these costs were paid from the department's General Fund accounts. In addition, DTED was not billed by the Department of Finance for fiscal year 2001 statewide indirect costs.

Note (4) DES costs in fiscal year 2000 include some costs not previously charged to the program. These included such things as the one-stop operating system project, research costs previously charged to the federal Dislocated Worker Program, and support costs of the assistant commissioner and deputy assistant commissioner's offices.

Note (5) In fiscal years 1999 and 2000, DES charged \$250,000 to the Dislocated Worker Program for a portion of the costs of staff involved in local labor market statistical analysis. For fiscal year 2001, DES continues to gather this information for the program, but DTED did not reimburse DES for these costs.

Note (6) Other costs for DTED in fiscal year 2001 include payments totaling \$240,000 to DES for transitional assistance to administer the State Dislocated Worker Program.

Sources: Auditor prepared from SESA 61 Reports for fiscal years 1997 through 2000 and DES collection cost records for fiscal years 1997 through 2001. Administrative cost amounts for fiscal year 2001 represent DTED expenditures recorded in the MAPS accounting system.

Department of Economic Security – State Dislocated Worker Program

Collection Costs

Collection costs represent an allocated share of the cost of the unemployment insurance tax collection function. The collection function involves a broad range of activities relating to collection of the unemployment insurance tax and the special assessment, including:

- maintaining employer accounts, including tax and wage detail;
- mailing tax forms, reports and correspondence;
- pursuing delinquent accounts and assessing penalties and interest;
- resolving protests and appeal hearings; and
- conducting field audits and other tax enforcement practices.

Because the Dislocated Worker special assessment is collected through the Unemployment Insurance Program, and because administrative costs for that program are funded from a federal grant, the federal government required DES to allocate a portion of collection costs to the special assessment. State statutes specifically permit reimbursement of collection costs. During the audit period, Minn. Stat. (2000) Section 268.022, Subd. 2(d), provided:

Reimbursement for costs related to collection of the special assessment shall be in an amount negotiated between the commissioner and the United States Department of Labor.

Laws of Minnesota 2001, 1st Special Session, Chapter 4, Article 2, Section 22, amended Section 268.022, Subd. 2. The new Subd. 2(c) retained the aforementioned language authorizing reimbursement of collection costs.

In 1991, the United States Department of Labor issued a general administrative letter to all state employment security agencies. The purpose of the letter was to provide guidance to the states in determining the costs of assessing and collecting state taxes that are not used solely for unemployment insurance (UI) purposes. Basically, the guidance stated that when a state collects a tax that is used entirely for “non-UI” purposes, federal administrative funds could not be used to administer the state tax. The federal government issued the guidance because it noted many states were enacting legislation requiring a special tax to be collected with the unemployment insurance tax.

DES originally proposed a cost-sharing plan based on the proportion of revenue collected for each program. The Department of Labor rejected this plan. The department provided DES with a federal allocation guideline and a sample allocation model that was used by other states. The objective of the cost sharing arrangement was to allocate the collection costs to affected programs in proportion to the benefits received. The suggested model allocated collection function costs based on the percentage of UI computer system bytes used by each tax type. Working with the Department of Labor, DES applied this model and determined that 15.38 percent of the collection function costs should be allocated to the State Dislocated Worker special assessment. The United States Department of Labor approved this rate on March 12, 1993. The allocation rate has remained unchanged since that time. DES indicated that the

Department of Economic Security – State Dislocated Worker Program

computer system byte ratio has not changed, so the percentage of allocation costs would remain the same under the current formula.

Department of Labor staff told us that the 1991 cost guidelines remain in force and that various other states are collecting additional taxes through the UI system. The Department of Labor also said that the other states were following the practice of allocating collection costs to affected tax programs based on the computer system byte ratio.

Collection costs have averaged approximately \$1.5 million each year. When DES administered the State Dislocated Workers program, it recorded gross tax collections and collection costs in the program account in the Workforce Development Fund. In fiscal year 2001, since DES was no longer administering the Dislocated Worker Program, the department deducted the collection cost reimbursements from tax collections and transferred the net assessment amount to DTED.

Administrative Costs

The Department of Economic Security incurred both direct and indirect administrative costs when it managed the State Dislocated Worker Program. Minn. Stat. (2000) Section 268.022, Subd. 2(c), provided:

No more than five percent of the funds collected in each fiscal year may be used by the department of economic security for its administrative costs.

DES administrative costs during the ten years it managed the program represented 3.6 percent of gross tax collections. For fiscal years 1997 through 2000, these costs averaged 4.2 percent of gross tax collections. Payroll was the largest cost category. In fiscal year 2000, payroll costs represented approximately 13.9 full-time equivalent positions that were directly charged to the program and an additional 4.8 positions that were allocated to the program as indirect costs.

To substantiate payroll costs, department employees completed a monthly timesheet identifying hours worked on individual programs. Employees entered the program codes and hours worked into SESA's time distribution component. These hours, combined with the employees' hourly rates, determined monthly payroll charges to individual programs. SESA also used these hours to calculate program percentages within individual cost centers and across the entire agency. SESA used these labor percentages as an allocation basis for pooled and agency indirect costs.

Other administrative expenditures included supplies and equipment, services, communications, and travel. For departmental purchases, employees coded invoices for goods and services, and other data entry documents, to identify whether the cost should be directly charged to the program or allocated to various programs by SESA. The coding also indicated the method SESA should use to allocate the costs.

In addition to the aforementioned costs, in fiscal years 1999 and 2000, the department used a total of \$500,000 from the Dislocated Workers program to partially fund its labor market analyst positions. These staff members studied local labor market trends and provided data to the Dislocated Worker Program, as well as to other programs. DES continued to perform the labor

Department of Economic Security – State Dislocated Worker Program

market analysis in fiscal year 2001; however, DTED did not reimburse DES for any portion of the cost of this activity.

Audit Objectives and Methodology

Our review of collection and administrative costs focused on the following questions:

- Did the department properly calculate and record collection costs and administrative costs for the State Dislocated Worker Program in SESA?
- Did the department comply with significant finance-related legal provisions related to State Dislocated Worker Program administrative costs?

To answer these questions, we reviewed the program's finance-related legal provisions and interviewed DES employees to gain an understanding of how they ensured compliance with the legal provisions. We verified that the calculation of collection costs complied with the agreement with the federal government. We also discussed federal requirements regarding collection costs with representatives of the United States Department of Labor. We reviewed the department's definition of administrative costs and its interpretation of the base used to calculate the five percent administrative cost limitation. We recalculated the administrative cost limit and compared it to actual administrative costs charged to the program. We discussed payroll and purchasing practices with departmental staff. We analyzed financial data to determine if costs were allowed by program guidelines. We reviewed the vendors paid and the types of goods and services purchased. We also reviewed the duties of employees whose payroll costs were directly charged to the program.

In addition, because of questions about the relative level of administrative costs charged to the program by DES and DTED, we analyzed DTED financial information for fiscal year 2001 and discussed cost allocation procedures with department personnel. The notes to Table 3-1 identify some of the cost differences.

Conclusions

The Department of Economic Security allocated a share of unemployment insurance collection costs to the State Dislocated Worker Program based on a statutory authorization and an agreement with the federal Department of Labor. The department properly recorded the State Dislocated Worker Program administrative costs in its SESA cost allocation system and adjusted year-end MAPS balances to report actual program expenditures. The administrative costs funded by the State Dislocated Worker Program complied with statutory limitations.

Administrative costs charged to the program were lower during fiscal year 2001, when the program was managed by DTED. DTED's costs were lower than DES's because DTED had fewer employees working on the program than DES did and DTED did not charge statewide or agency indirect costs to the program, while DES did. Also, during the last two years that DES managed the program, it added certain new functions or activities to the cost pool that previously had not been charged to the program. These new costs were allowable under program guidelines. DES continues to perform many of these functions, which can benefit various programs, including Dislocated Worker.

Department of Economic Security – State Dislocated Worker Program

This page intentionally left blank.

Chapter 4. Subgrant Expenditures

Chapter Conclusions

The Department of Economic Security accurately recorded subgrant expenditures in the department's and the state's accounting systems for the period July 1, 1996, through June 30, 2000. For the items tested, the department complied with material finance-related legal provisions governing the use of funds.

Minn. Stat. (2000) Section 268.022, Subd. 2(e), specified how State Dislocated Worker subgrant funds were to be distributed. Forty percent of available subgrant funds were to be allocated annually for expeditious response activities and worker adjustment services. The other 60 percent of funding was designed to support projects that served workers affected by plant closings or mass layoffs.

The Department of Economic Security contracted with area grantees and other service providers to deliver dislocated worker services statewide. Table 4-1 shows subgrant expenditures by type for the four-year audit period.

Table 4-1
State Dislocated Worker Program
Subgrant Expenditures by Type
Fiscal Years 1997-2000

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
Retraining Services	\$ 5,865,426	\$ 6,367,509	\$ 6,399,913	\$ 5,711,203
Readjustment Services	4,137,111	4,816,056	4,934,242	5,341,969
Supportive Services	1,534,022	1,734,087	1,993,560	1,246,295
Subgrant Administration ⁽¹⁾	<u>1,653,414</u>	<u>1,640,879</u>	<u>1,836,871</u>	<u>1,549,789</u>
Total Subgrants	<u>\$13,189,973</u>	<u>\$14,558,531</u>	<u>\$15,164,586</u>	<u>\$13,849,256</u>

Note 1: These costs represent subgrantee expenses to operate and administer the program.

Source: Auditor prepared from SESA 61 Reports.

The department initiated written agreements with each grant recipient. Grantees submitted cash requests to DES, and DES generated state warrants to advance funds to grantees or to reimburse grantees for costs incurred. Grantees submitted monthly financial status reports that showed the current and cumulative expenditures by cost category. At the end of the grant, grantees submitted a final financial status report and a final activity report. The department reconciled total cash advances to actual expenditures for each grantee and collected unspent funds.

Department of Economic Security – State Dislocated Worker Program

DES used the SESA cost accounting system to track both cash advances and actual expenditures. When DES advanced cash to a grantee, it recorded the transaction in both SESA and MAPS. MAPS generated the warrant to the vendor. When grantees submitted monthly financial status reports showing actual expenditures, DES entered these expenditures in SESA only. MAPS showed cash advances only, whereas SESA showed cash advances and actual expenditures. The department used SESA to ensure that grantees spent all funds advanced to them.

Audit Objectives and Methodology

Our review of subgrant expenditures focused on the following questions:

- Did the Department of Economic Security accurately record subgrant expenditures in the SESA cost accounting system and in MAPS?
- Did the department comply with material finance-related legal provisions governing the use of subgrant funds?

To answer these questions, we analyzed subgrant expenditure transactions. We interviewed DES employees to gain an understanding of the grant process, including the allocation methodology, and the monitoring activities completed by the department. We examined a sample of subgrant expenditure transactions to determine if they were accurately recorded in the SESA cost accounting system, and verified total grant expenditures to MAPS. Finally, we tested subgrant transactions to determine if the expenditures complied with finance-related legal provisions, including grant contract terms and program requirements.

Conclusions

The Department of Economic Security accurately recorded subgrant expenditures in the SESA and MAPS accounting systems for the period July 1, 1996, through June 30, 2000. For the items tested, the department complied with material finance-related legal provisions governing the use of funds.