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**OFFICE OF THE LEGISLATIVE AUDITOR**  
**STATE OF MINNESOTA**

Management Letter

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**Department of Economic Security**  
**Fiscal Year Ended June 30, 1999**



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**MARCH 14, 2000**

**00-12**

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## 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.

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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](mailto:auditor@state.mn.us)



## Summary

Management Letter

### **Department of Economic Security Fiscal Year Ended June 30, 1999**

Key Findings and Recommendations:

- The Department of Economic Security did not provide adequate oversight to two vendors of the American Learning Exchange Grant (CFDA 17.207) to ensure these vendors complied with grant provisions. The Department did not receive timely progress reports and adequate documentation to support reimbursement requests totaling \$840,000 in fiscal year 1999. We also noted certain overhead rates and fees submitted by the vendors were not specified in the grant agreement. We recommended improved oversight and clarification of overhead rates not specified in the grant agreements. (Finding 1, page 3)
- The Department of Economic Security and the U.S. Department of Labor have not resolved a potential funding usage issue for the Local Veterans Employment Representative (LVER) Program (CFDA 17.804). The two agencies do not agree whether time spent taking employer job orders is allowed under the LVER Program. We recommended that the department work with the federal government to revolve the personnel funding issue. (Finding 2, page 3)
- The department reimbursed certain Employment Services Program (CFDA 17.207) subgrantees for expenditures incurred after the grant period ended. We found that the department disbursed \$113,681 to four subgrantees from August 1998 through January 1999 for work completed after the grant ended on June 30, 1998. We recommended better monitoring of subgrantee progress and extension of individual grant agreements when appropriate. (Finding 3, page 4)

**Management letters** address internal control weaknesses and noncompliance issues found during our annual audit of the state's financial statements and federally-funded programs. The scope of work in individual agencies is limited. During the fiscal year 1999 audit, our work at the Department of Economic Security focused on financial activities of the Reemployment Insurance Trust Fund and eight federal programs administered by the department. The department's response to our recommendations is included in the report.

# Department of Economic Security

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### 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
Mike Byzewski	Auditor
Dan Kingsley	Auditor
Loren Louwagie	Auditor
Mark Mathison, CPA, CISA	Auditor
Tory Monson	Auditor
Ellen Sibley	Auditor

### Exit Conference

The findings and recommendations in this report were discussed with the following officials of the Department of Economic Security at an exit conference held on March 2, 2000:

Earl Wilson	Commissioner
Al St. Martin	Deputy Commissioner
Mick Coleman	Associate Deputy Commissioner
John Stavros	Chief Financial Officer
Tim Langlie	Accounting Director



Representative Dan McElroy, Chair  
 Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. Earl Wilson, Commissioner  
 Department of Economic Security

We have performed certain audit procedures at the Department of Economic Security as part of our audit of the financial statements of the State of Minnesota for the year ended June 30, 1999. We also have audited certain federal financial assistance programs administered by the Department of Economic Security as part of our audit of the state's compliance with the requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement*. We emphasize that this has not been a comprehensive audit of the Department of Economic Security.

Table 1 identifies the financial activities within the Department of Economic Security that were material to the state's financial statements. We performed certain audit procedures on these programs as part of our objective to obtain reasonable assurance about whether the State of Minnesota's financial statements for the year ended June 30, 1999, were free of material misstatement.

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**Table 1**  
**Programs Material to the State's Financial Statements**  
**Fiscal Year 1999**  
**(in thousands)**

	<u>Amount</u>
Reemployment Insurance Cash	\$621,651
<u>Revenue Areas</u>	
Reemployment Insurance Taxes	\$380,287
Reemployment Insurance Investment Income	\$ 39,906
<u>Expenditure Areas</u>	
Reemployment Insurance Grants	\$369,115

Source: State of Minnesota Comprehensive Annual Financial Report for fiscal year 1999.

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Table 2 identifies the State of Minnesota's major federal programs administered by the Department of Economic Security. We performed certain audit procedures on these programs as part of our objective to obtain reasonable assurance about whether the State

## Department of Economic Security

of Minnesota complied with the types of requirements that are applicable to each of its major federal programs.

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**Table 2**  
**Major Federal Programs Administered by the Department of Economic Security**  
**Fiscal Year 1999**  
**(in thousands)**

<u>CFDA #</u>	<u>Program Name</u>	<u>Federal</u>
17.225	Unemployment (Reemployment) Insurance <sup>(1)</sup>	\$408,052
84.126	Rehabilitation Services Basic Support	47,495
96.00X	Social Security Disability Insurance/ Supplemental Security Insurance	17,611
	Employment Services Cluster:	
17.207	Employment Services	\$18,074
17.801	Disabled Veterans' Outreach Program	1,579
17.804	Local Veterans' Employment	<u>1,799</u>
	Total Employment Service Cluster	<u>\$21,452</u>
	Job Training Partnership Act Cluster:	
17.250	Job Training Partnership Act (JTPA Title II)	\$19,168
17.246	Employment and Training Assistance – Dislocated Workers (JTPA Title III)	<u>9,359</u>
	Total Job Training Partnership Act Cluster	<u>\$28,527</u>

Note: (1) Expenditures include \$364,667 of state reemployment insurance grants, \$3,278 in federal reemployment insurance grants, and \$40,107 of federal administrative reimbursements.

Source: State Employment Security Agency Cost Accounting System for fiscal year 1999.

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We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Conclusions

Our December 1, 1999, report included an unqualified opinion on the general purpose financial statements included in the State of Minnesota's Comprehensive Annual Financial Report for fiscal year 1999. In accordance with *Government Auditing Standards*, we also issued our report, dated December 1, 1999, on our consideration of the State of Minnesota's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. At a later date, we will issue our report on compliance with requirements applicable to each major federal program and internal control over compliance in accordance with OMB Circular A-133.

## Department of Economic Security

As a result of our procedures, we identified the following instances of noncompliance with finance-related legal provisions or program requirements and the following weaknesses in internal control at the Department of Economic Security.

### **1. The Department of Economic Security did not provide adequate oversight to two vendors of the American Learning Exchange Grant.**

The department did not adequately control payments to two vendors of the American Learning Exchange Grant to ensure they complied with grant provisions. The U.S. Department of Labor funded American Learning Exchange Grants as part of the Employment Services Program (CFDA 17.207). The Department of Economic Security disbursed approximately \$840,000 to the two vendors during fiscal year 1999. We found that the department did not receive timely and adequate documentation to support the vendor reimbursement requests. According to the grant agreements, the department would reimburse the vendors after submission of monthly invoices that provide a financial status report and a report of project progress. The vendors did not submit invoices or financial status reports each month. In addition, the invoices did not provide sufficient detail of the project costs. Some invoices did not provide the timeframe for services billed, details of services provided, or other supporting information. Also, one vendor applied a fringe and overhead rate of 92 percent of labor costs and a general and administrative rate of 6.9 to 7 percent to all invoices. Some of the invoices from this vendor also contained an additional fee of 4.5 percent. The grant agreement did not specify any of these rates.

#### *Recommendation*

- *The Department of Economic Security should actively oversee the American Learning Exchange Grant by obtaining timely progress reports and other detailed support. The department should also clarify use of overhead rates and fees that are not specified in the grant agreement.*

### **2. The Department of Economic Security and the U.S. Department of Labor have not resolved a question on funding certain personnel costs.**

The Department of Economic Security and the U.S. Department of Labor have not resolved a question on allowable uses of funds for the Local Veterans Employment Representative (LVER) Program (CFDA 17.804). The two agencies do not agree whether time spent taking employer job orders is allowed under the LVER Program. The U.S. Department of Labor classifies this as a clerical function and believes it is not an acceptable job duty under the LVER program. 38 U.S.C. 4104(b) states “Local veterans’ employment representatives shall functionally supervise the providing of services to eligible veterans and eligible persons by local employment service staff.”

## Department of Economic Security

The U.S. Department of Labor requested that the department discontinue assigning LVER employees to the employer job order desk, back out the charges for days LVER employees were scheduled to work the desk, and develop a corrective action. The two agencies have not agreed on a resolution.

### *Recommendation*

- *The Department of Economic Security should work with the U.S. Department of Labor to resolve the questions on allowable use of LVER program funding.*

### **3. The Department of Economic Security reimbursed subgrantees for expenditures incurred after the grant period.**

The department disbursed funds to subgrantees of the One-Stop Grant for work completed after the grant ended. The grant is part of the Employment Services Program (CFDA 17.207) and was used for startup funding for the Workforce Centers. The department disbursed \$113,681 to four subgrantees from August 1998 through January 1999 for work completed after the grant ended. The individual grant agreements remained in effect until June 30, 1998. The department did not work with the subgrantees to extend their individual grant agreements.

### *Recommendation*

- *The Department of Economic Security should monitor subgrantees' progress within the timetable of the grant and modify grant agreements when appropriate.*

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 14, 2000.

*/s/ James R. Nobles*

James R. Nobles  
Legislative Auditor

*/s/ Claudia J. Gudvangen*

Claudia J. Gudvangen, CPA  
Deputy Legislative Auditor

End of Fieldwork: February 1, 2000

Report Signed On: March 9, 2000



## Department of Economic Security

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### Status of Prior Audit Issues As of February 1, 2000

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**March 1999, Legislative Audit Report 99-21** examined the department's activities and programs material to the State of Minnesota's Comprehensive Annual Financial Report and the Single Audit for the year ended June 30, 1998. The scope included material selected activities for the Reemployment Insurance Fund and the following federal programs: Unemployment Insurance Administration, Rehabilitation Services Basic Support, Social Security Disability Insurance, Senior Community Service Employment, Employment Services Cluster (Employment Services, Disabled Veterans' Outreach Program, Local Veterans' Employment Program), and Job Training Partnership Cluster (Job Training Partnership Act Title II, Dislocated Workers Title III).

The report contained four findings. The department resolved Findings 1 and 3. Finding 1 addressed the lack of federal suspension and debarment certifications from certain subrecipients and Finding 3 identified improvements needed for controls over privileged logonID records. The department is in the process of resolving Findings 2 and 4 pertaining to ACF2 security administration procedures and the development of a comprehensive written disaster recovery plan. The department developed a multi-year plan during fiscal year 1998 to address these audit issues and is proceeding with the plan.

#### 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.



# State of Minnesota

## Department of Economic Security

390 North Robert Street  
Saint Paul, Minnesota 55101

Office of the Commissioner

March 7, 2000

Mr. James R. Nobles  
Legislative Auditor  
First Floor, Centennial Office Building  
658 Cedar Street  
St. Paul, Minnesota 55155

Dear Mr. Nobles:

The following information is offered in response to your draft report for the fiscal year ended June 30, 1999.

### Finding 1

- **The Department of Economic Security did not provide adequate oversight to two vendors of the America's Learning Exchange Grant.**

We agree. We will ensure that, prior to payment, all subgrantees provide timely and detailed documentation of their activities as agreed to in their subgrant.

### Finding 2

- **The Department of Economic Security and the U.S. Department of Labor have not resolved a question on funding certain personnel costs.**

We agree. We will work with the U.S. Department of Labor to clarify the duties of Local Veteran's Representative.

### Finding 3

- **The department of Economic Security reimbursed subgrantees for expenditures incurred after the grant period.**

James Nobles  
Page Two  
March 7, 2000

We agree. It is our policy and practice to only allow subgrantees to expend funds during the grant period. Due to the unique nature and handling of these subgrants, a verbal extension was given, but not documented with a formal grant modification. However, it should be noted that the federal funds had not exceeded their period of availability.

Sincerely,

*/s/ Earl R. Wilson*

Earl R. Wilson  
Commissioner

ERW:plb