



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

Financial Audit Division Report

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**Department of Employment and  
Economic Development**  
**Fiscal Year Ended June 30, 2006**



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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 forty 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.

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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If you have comments about our work, or you want to suggest an audit, investigation, or evaluation, please contact us at 651-296-4708 or by e-mail at [auditor@state.mn.us](mailto:auditor@state.mn.us)

# Department of Employment and Economic Development

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### Audit Participation

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

Cecile Ferkul, CPA, CISA	Deputy Legislative Auditor
Brad White, CPA, CISA	Audit Manager
Ken Vandermeer, CPA	Audit Coordinator
Ching-Huei Lee, CPA, CISA	Team Leader
John Hakes, CPA	Senior Auditor
Tenzin Tsering	Auditor
Xin Wang	Auditor
Jerry Foty	Intern

### Exit Conference

We discussed the results of the audit with the following representatives of the Department of Employment and Economic Development at an exit conference on March 16, 2007:

Dan McElroy	Commissioner
Paul Moe	Deputy Commissioner
John Stavros	Chief Financial Officer
Tim Langlie	Accounting Director
Kimberly Peck	Rehabilitation Services Director
Reed Erickson	Small Cities Development Program Director
Kathy Nelson	Unemployment Insurance Division Director

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## Report Summary

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### Key Findings:

- The department did not effectively control adjustments to employers' unemployment insurance accounts. Too many staff could update these high-risk transactions, legal staff did not always approve "compromises" exceeding the \$2,500 statutory limit, and weaknesses existed over the refund process. ([Finding 1, page 4](#))
- The department inappropriately discarded military and federal employee wage verification documents. ([Finding 2, page 6](#))
- One prior audit issue was not resolved. The department did not consistently monitor and report expenditures for the Community Development Block Grant Program. ([Finding 3, page 6](#))

The report contained four findings related to internal control and legal compliance, including one from last year that remained unresolved. Three additional prior year audit recommendations were implemented.

### Audit Scope:

Programs material to the State of Minnesota's financial statements and to federal program compliance for fiscal year 2006.

### Selected Audit Areas:

- Unemployment Insurance Fund
- Federal Programs, including:
  - Unemployment Insurance Administration
  - Employment Services Cluster
  - Workforce Investment Act Cluster
  - Vocational Rehabilitation
  - Community Development Block Grants

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### Background:

In fiscal year 2006, The Department of Employment and Economic Development recorded unemployment insurance tax revenues totaling \$978 million and paid benefits of \$691 million. The department also managed federal expenditures totaling approximately \$194 million.



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

Representative Rick Hansen, Chair  
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. Dan McElroy, Commissioner  
Department of Employment and Economic Development

We have performed certain audit procedures at the Department of Employment and Economic Development as part of our audit of the basic financial statements of the State of Minnesota for the year ended June 30, 2006. We also audited the department's compliance with applicable requirements governing the administration of federal awards for the year ended June 30, 2006, as described in the U.S. Office of Management and Budget's *Circular A-133 Compliance Supplement*. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

The Department of Finance is primarily responsible for statewide financial reporting. The department prepares the *Comprehensive Annual Financial Report* that contains the state's basic financial statements and our opinion on those statements. The Department of Finance also annually prepares the *Minnesota Financial and Compliance Report of Federally Assisted Programs*. This report provides the federal government with information about the state's use of federal funds and its compliance with federal program requirements. The report includes the results of our audit work, conclusions on the state's internal controls over and compliance with federal programs, and findings about control and compliance weaknesses.

The scope of our audit work included the following:

- Material fiscal year 2006 financial activities of the Unemployment Insurance Fund, including unemployment taxes (\$975 million), other revenues (\$79 million), and unemployment benefits (\$691 million).
- Major federal programs administered by the Department of Employment and Economic Development, as identified in Table 1, and including a review of the department's compliance with federal requirements in areas such as cash management, recipient eligibility, allowable costs, and financial reporting.

We emphasize that this has not been a comprehensive audit of the Department of Employment and Economic Development.

# Department of Employment and Economic Development

**Table 1**  
**Major Federal Programs Administered by the**  
**Department of Employment and Economic Development**  
**Fiscal Year 2006**  
**(in thousands)**

<u>CFDA #</u> <sup>(Note 1)</sup>	<u>Program Name</u>	<u>Federal Expenditures</u>
17.225	Unemployment Insurance <sup>(Note 2)</sup>	\$726,750
84.126	Vocational Rehabilitation	\$ 40,501
	<u>Workforce Investment Act Cluster:</u> <sup>(Note 1)</sup>	
17.260	Workforce Investment Act-Dislocated Worker	\$ 12,683
17.259	Workforce Investment Act-Youth	11,415
17.258	Workforce Investment Act-Adult	<u>9,213</u>
	Total Workforce Investment Act Cluster	\$ 33,311
14.228	Community Development Block Grant	\$ 23,373
	<u>Employment Services Cluster:</u>	
17.207	Employment Services	\$ 18,602
17.801	Disabled Veterans Outreach	1,561
17.804	Local Veterans Employment Representative	<u>1,281</u>
	Total Employment Services Cluster	\$ 21,444

Note 1: The Catalog of Federal Domestic Assistance (CFDA) is a unique number assigned by the federal government to identify its programs. Some federal programs are clustered if they have similar compliance requirements. Although the programs within a cluster are administered as separate programs, they are treated as a single program for the purpose of meeting the audit requirements of OMB Circular A-133.

Note 2: Expenditures include unemployment insurance benefits and over \$40 million of federal administrative reimbursements.

Source: Department of Employment and Economic Development's accounting system for fiscal year 2006.

## Conclusions

We issued an unqualified audit opinion,<sup>1</sup> dated December 14, 2006, on the State of Minnesota's basic financial statements for the year ended June 30, 2006. In accordance with *Government Auditing Standards*, we also issued our report,<sup>2</sup> dated December 14, 2006, on our consideration of the State of Minnesota's internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts, and grants. That report included a concern identified through our audit work at the Department of Employment and Economic Development. The audit revealed a weakness in the department's internal controls that did not prevent or detect a significant misstatement, resulting in an adjustment to the unearned revenue liability reported on the preliminary Unemployment Insurance Fund's financial statements. Because the Department of Finance is primarily responsible for the state's financial reporting

<sup>1</sup> An unqualified audit opinion means that we concluded that the state fairly presented its financial data in its basic financial statements.

<sup>2</sup> Legislative Audit [Report #07-04](#).

## Department of Employment and Economic Development

process, we included these concerns in our report to the Department of Finance issued in March 2007 ([Legislative Audit Report #07-04](#)).

Except for the following findings, the Department of Employment and Economic Development complied with and had controls to ensure compliance with certain provisions of laws, regulations, contracts, and grants applicable to its major federal programs for fiscal year 2006.

### Findings and Recommendations

#### **1. The Department of Employment and Economic Development did not effectively control adjustments to employer tax accounts for the Unemployment Insurance Program (CFDA #17.225).**

The department did not control adjustments to employer tax accounts for compromises,<sup>3</sup> cancellations,<sup>4</sup> and refunds of unemployment insurance premiums. Too many department staff could enter these transactions, and adequate controls did not exist to identify and ensure that these high-risk transactions were proper and complied with federal and state requirements.<sup>5</sup>

The department implemented a new computerized tax system in June 2005. The new system computes unemployment tax obligations and records payments for corporate employer accounts. During fiscal year 2006, the department collected \$975 million of unemployment taxes from employers and \$9.1 million in late fees and penalties. The department also processed compromises totaling \$3.9 million, cancelled amounts due of \$11.5 million, and issued over \$5.8 million of employer refunds for excess taxes paid. Weak monitoring controls, combined with an excessive number of staff that could enter these transactions, increased the risk that unauthorized compromises, cancellations, or refunds could occur.

The department had the following weaknesses in its controls over compromises and cancellations of unemployment taxes owed by employers:

- The department did not appropriately limit the number of department staff who could adjust employer accounts. Ninety-one staff had the ability to compromise and/or cancel an employer's unemployment tax liability, and 31 staff could process refunds to employers. Furthermore, there was no review or approval to ensure the accuracy and appropriateness of the transactions. The department should limit access to adjust an employer's account to staff assigned responsibility for those transactions.

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<sup>3</sup> [Minnesota Statutes 2005, 268.067](#) define a "compromise" as a reduction in the amount owed, in whole or in part, because of a problem or error that occurred during the past 24 months. The commissioner may compromise any amount due from an employer under this chapter. Compromises over \$2,500 shall be authorized by the department's legal staff.

<sup>4</sup> [Minnesota Statutes 2005, 268.066](#) define a "cancellation" as a write-off of a legitimate amount due that was uncollected for at least six years, or was uncollectible due to bankruptcy, could not be collected by the Department of Revenue's Collections Division, or the commissioner determines that it is not in the public interest to pursue collection of the amount due.

<sup>5</sup> The Unemployment Insurance program is a partnership between the federal and state governments; implemented primarily through state law contained in [Minnesota Statutes 2005, Chapter 268](#).

## Department of Employment and Economic Development

- The department did not properly record compromise and cancellation transactions in the unemployment insurance system. When employers filed incorrectly, creating inaccurate tax obligations or amounts due, staff cancelled amounts as uncollectible. However, since these adjustments were for filing errors, the department should have posted compromise transactions instead of cancellations. Over \$7 million (or 60%) of the cancellations posted during 2006 were for amounts due or tax obligations of the past two years. *Minnesota Statutes*<sup>6</sup> define and distinguish these transactions, which have unique characteristics and legal timeframes. To ensure that it complies with these legal timeframes, the department needed to clarify the accounting for each type of transaction.
- The department did not ensure that its legal staff reviewed and approved all compromises exceeding \$2,500, as required by statute.<sup>7</sup> The department did not refer compromises miscoded as cancellations to its legal staff for review and approval. In addition, the department had not developed system edits to require a legal review nor did it produce reports to ensure that legal staff reviewed all compromises exceeding \$2,500.
- The unemployment insurance system did not accurately calculate interest owed on delinquent balances. The system did not adjust the interest due when the department made an adjustment to the taxes owed by the employer, resulting in interest overcharges to employer accounts and the need for department staff to compromise those overcharges.

In addition to these weaknesses related to processing of compromises and cancellations, the department did not have controls to ensure that refunds recorded in the unemployment insurance system agreed with those actually paid. Because the refunds are paid through a different system, the department must ensure that refund activity posted to employer accounts agrees with the actual money refunded. The department did not reconcile systems during fiscal year 2006, and staff did not enter important refund data, such as the refund warrant number. Starting in August 2006, the department began daily comparisons between the two systems, but the staff performing the reconciliations also had system access allowing them to process refund checks.

### *Recommendations*

- *The department should improve internal control over adjustments to unemployment insurance employer accounts by.*
  - *restricting staff access to enter system compromise and cancellation transactions and developing an independent review and approval process to ensure that adjustments are accurate and authorized;*
  - *properly accounting for compromises and cancellations to employer account balances in the unemployment insurance system;*
  - *developing a system edit or a manual process to prevent compromises greater than \$2,500, except those approved by the department's legal counsel; and*

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<sup>6</sup> *Minnesota Statutes* 2005, 268.066 and 268.067.

<sup>7</sup> *Minnesota Statutes* 2005, 268.067 (c).



## Department of Employment and Economic Development

- *adjusting the unemployment insurance system’s calculation of interest due on unpaid taxes to accurately calculate interest on the unpaid portion of an employer’s delinquent account balance.*
- *The department should improve control over employer refunds by:*
  - *limiting the number of employees that have access to enter system refunds;*
  - *preventing staff from completing the refund process without entering important refund data; and*
  - *separating incompatible duties between staff that reconcile refunds between systems and those that process refund checks and post refunds to employer accounts.*

### **2. The Department of Employment and Economic Development discarded military and federal employee wage verification documents supporting their eligibility for unemployment insurance (CFDA #17.225) benefits.**

The department did not retain military discharge papers and federal employee wage verifications used to document eligibility for unemployment benefits. Military applicants must provide the department with a copy of their *Certificate of Release or Discharge from Active Duty* to be eligible for unemployment benefits. Federal employees submit a *Request for Wage and Separation Information* form which contains quarterly wages certified by their federal employer. The department did not retain those documents dated prior to January 1, 2006, and could not support its eligibility decisions for benefits paid related to those applicants. They could only provide records received after January 1, 2006 (last half of fiscal year 2006).

The department’s record retention schedule specifies that benefit documents be kept for three years or until audited. Adequate documentation allows the department to demonstrate its compliance with state and federal program regulations. Without this documentation, the department was unable to support the accuracy and propriety of over \$3 million in military benefits and \$1 million of federal employee benefits paid during the first half of fiscal year 2006.

#### *Recommendation*

- *The department should comply with its record retention schedules and preserve records supporting military and federal employee unemployment benefits until they are audited or electronically captured and stored.*

### **3. PRIOR FINDING PARTIALLY RESOLVED: The Department of Employment and Economic Development did not consistently monitor and report project expenditures for the federal Community Development Block Grant Program (CFDA #14.228).**

Department staff assigned to monitor the Community Development Block Grant Program did not always ensure that grant recipients filed environmental certifications, submitted timely audit reports, and followed-up on recommendations cited in audits of those organizations. The

## Department of Employment and Economic Development

department also had problems with timely and accurate filings of the program's key federal financial report and measurement of federal expenditures submitted to the Department of Finance for inclusion in the *Minnesota Financial and Compliance Report on Federally Assisted Programs*.

The program provides federal grants to small cities for housing and economic improvement projects. Under federal authority, the state has issued rules to govern grant application, awarding, and monitoring. The department employed 'program monitors' to monitor project progress and verify that cities comply with federal grant requirements. Our prior audit identified inconsistent practices by program monitors. Although the department improved payment authorization controls, the department continued to have some weaknesses, as discussed below:

- The department could not locate an environmental review certification for one city that was awarded federal program funds in 2002 and paid \$749,377 during the end of their grant in fiscal year 2006. In addition, the department did not have other evidence that an environmental review had been done or a written justification that the review was not required. Environmental oversight and reviews are among the state's key compliance responsibilities to ensure they use funds for eligible projects that do not adversely impact the environment.
- The department did not ensure subrecipients received timely audits of their grant's financial activity. Program monitors did not receive an independent audit report within nine months of the fiscal year-end for three of five subrecipients tested. Federal guidelines require that organizations who receive over \$500,000 annually submit an independent *OMB Circular A-133* audit report within nine months of their year end. One of those audits filed late raised a concern that the department did not acknowledge or pursue through a correction action plan. In addition, program monitors did not always record receipt of audit reports in their database used to monitor each grant's status. Without effective monitoring and oversight of audits completed, ineligible project costs and noncompliance with federal regulations could occur without detection.
- The department was over 40 days late in submitting the program's 2005 *Performance and Evaluation Report* to the federal Housing and Urban Development Agency. The report for the period ending September 30, 2005, was due on December 31, 2005, but the department did not submit it until February 2006. In addition, the department incorrectly included on that report at least \$1.5 million of expenditures paid from October 2005 through January 2006. The department should have included these subsequent expenditures in the next federal reporting period.
- Finally, the department inappropriately included the program's state match expenditures totaling \$372,092 in the federal expenditures reported to the Department of Finance for inclusion in the *Minnesota Financial and Compliance Report on Federally Assisted Programs*. The audit initiated an adjustment to remove those nonfederal amounts from the reported expenditures.

# Department of Employment and Economic Development

## *Recommendations*

- *The department should comply with federal Community Development Block Grant Program requirements by:*
  - *ensuring that environmental review certifications are filed and that environmental reviews are completed as required by federal regulations;*
  - *ensuring it receives timely subrecipient audits and that any audit issues are adequately monitored and resolved; and*
  - *submitting timely and accurate Performance and Evaluation Reports to the federal Housing and Urban Development Agency.*
- *The department should exclude the state match in reporting the Community Development Block Grant Program's federal expenditures in the Minnesota Financial and Compliance Report on Federally Assisted Programs.*

#### **4. The Department of Employment and Economic Development did not ensure that vocational rehabilitation (CFDA #84.126) grant contracts had a required certification prohibiting grantees from using suspended or debarred vendors.**

The department's contracts with vocational rehabilitation grant recipients did not include a certification to refrain from using federally suspended or debarred vendors. Three of nine grant contracts tested did not include the required certification indicating they will refrain from using suspended or debarred vendors. (Vendors are suspended or debarred when the federal government determines that they have abused the public trust, perhaps by violating program provisions.) Federal regulations<sup>8</sup> prohibit using federal money to purchase goods or services from vendors who have been suspended or debarred. The federal government expects states and their grantees to identify suspended and debarred vendors and have a process in place to prevent them from receiving federal funds. Without the proper certification, the department could be held liable for any disallowed costs resulting from payments grantees make to suspended or debarred vendors.

## *Recommendation*

- *The department should ensure that all vocational rehabilitation grant contracts contain a suspension and debarment certification indicating that the grantee will not use federal funds to pay vendors who are suspended or debarred by the federal government*

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<sup>8</sup> 34 Code of Federal Regulations, Part 85.

## **Department of Employment and Economic Development**

This report is intended for the information of the Legislative Audit Commission and the management of the Department of Employment and Economic Development. This restriction is not intended to limit the distribution of this report, which was released as a public document on March 23, 2007.

*/s/ James R. Nobles*

James R. Nobles  
Legislative Auditor

*/s/ Cecile M. Ferkul*

Cecile M. Ferkul, CPA, CISA  
Deputy Legislative Auditor

End of Fieldwork: January 26, 2007

Report Signed On: March 20, 2007

# Department of Employment and Economic Development

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## Status of Prior Audit Issues As of January 26, 2007

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### Fiscal Year 2005 Statewide/Single Audit

**Legislative Audit Report #06-09**, issued in March 2006, examined the Department of Employment and Economic Development's activities and programs material to the State of Minnesota's *Comprehensive Annual Financial Report* for the fiscal year ended June 30, 2005. An unqualified opinion was issued on the State of Minnesota's *Comprehensive Annual Financial Report* for the year ended June 30, 2005. Four issues were identified as a result of our audit work at the Department of Employment and Economic Development:

- The department did not effectively identify certain Unemployment Insurance Fund accruals and transfers. The department's implementation of a new computerized unemployment tax system in June 2005 complicated its ability to estimate certain year-end revenue accruals. The department resolved this finding.
- The department did not file required unemployment insurance federal financial reports for the quarters ending June 30, September 30, and December 31, 2005, and could not locate documentation supporting its 2004 federal unemployment tax (FUTA) report filed in January 2005. The department properly filed and documented its federal reports during fiscal year 2006.
- The department did not consistently monitor and report project expenditures for the federal Community Development Block Grant Program. Despite improved payment authorization controls, we continued to see concerns with subrecipient oversight during our current audit, as reported in Finding 4.
- The department did not ensure that organizations submitted quarterly financial reports for the federal Vocational Rehabilitation Program. We encountered similar concerns during the fiscal year 2006 audit through March 2006 and saw improvement subsequent to that date.

#### 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.



**Comments on the Department of Employment and  
Economic Development’s Response**

Representative Rick Hansen, Chair  
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. Dan McElroy, Commissioner  
Department of Employment and Economic Development

In the response that follows, the Department of Employment and Economic Development agrees with all but one of our recommendations. Unfortunately, it is not clear from the response why the department disagrees with the recommendation that it should improve controls over “properly accounting for compromises and cancellations to employer account balances in the unemployment insurance system.”

We made that recommendation because we found instances of the department misclassifying account adjustments and, as a result, not following the statutorily prescribed method for making the adjustments. Specifically, state law requires that adjustments over \$2,500 that meet the definition of a “compromise” must be approved by a department attorney designated by the department’s commissioner. That approval did not occur in some cases we reviewed because the adjustments were miscoded as cancellations rather than compromises. Based on that finding, we recommended that the department should exercise more control over how the department classifies and accounts for compromises and cancellations. We think it is a recommendation the department should accept and implement.

*/s/ James R. Nobles*

James R. Nobles  
Legislative Auditor

*/s/ Cecile M. Ferkul*

Cecile M. Ferkul, CPA, CISA  
Deputy Legislative Auditor

March 21, 2007



March 20, 2007

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

Dear Mr. Nobles:

The following information is offered in response to your draft report for the fiscal year ended June 30, 2006.

Auditor's Finding 1. The department did not effectively control adjustments to employer tax accounts for the Unemployment Insurance Program (CFDA#17.225).

Auditor's Recommendations:

- The department should improve internal control over adjustments to unemployment insurance employer accounts by:
  - restricting staff access to enter system compromise and cancellation transactions and developing an independent review and approval process to ensure that adjustments are accurate and authorized;

**Response: We agree. The adjustment access should be limited to those that have an operational need to make adjustments. We are taking steps to reduce staff access to adjustments, compromises and cancellations.**

- properly accounting for compromises and cancellations to employer account balances in the unemployment insurance system;

**Response: We disagree. The authority provided in Minn. Stat. Sect. 268.066, to cancel amounts due from an employer, in whole or in part, does not require approval of an attorney. Whereas compromise authority provided in Minn. Stat. Sect. 268.067 requires that any amount over \$2500 be authorized by an attorney designated by the Commissioner. The compromise authority encompasses more than just debt but deals with tax rates, succession issues, and any other department action involving an employer. (Only two attorneys have that authority currently). The compromise function is used for "legitimate amounts due" in which the debtor is unable to pay and we agree to compromise, it is a formal process. The cancellation function is used to handle "problems or errors" which cancel penalties, fees, and interest that is**

**not in the public interest to collect. We will work with the auditors to reach consensus on the interpretation of the statute or we will seek legislation to amend the law.**

- developing a system edit or manual process to prevent compromises greater than \$2,500, except those approved by the department's legal counsel; and  
**Response: We agree. We will develop appropriate procedures.**

- adjusting the unemployment insurance system's calculation of interest due on unpaid taxes to accurately calculate interest on the unpaid portion of an employer's delinquent account balance.

**Response: We agree. The interest calculation error occurs in limited volume, under a specific scenario, which has been identified. It has been recorded and will be corrected after DEED's UI Technology Initiative Project is complete, sometime after 2007. Until the correction can be made, incorrect interest overcharges resulting from this scenario will be adjusted using the write-off (cancellation) functionality in the system.**

- The department should improve control over employer refunds by:
  - limiting the number of employees that have access to enter system refunds;

**Response: We agree. We will further limit the number of individuals who can initiate the refund process.**

- preventing staff from completing the refund process without entering important refund data; and,

**Response: We agree. This was completed in August of 2006.**

- separating incompatible duties between staff that reconcile refunds between systems and those that process refund checks and post refunds to employer accounts.

**Response: We agree. We will separate the duties.**

**Responsible Person: Kathy Nelson 651-296-1692**



Auditor's Finding 2. The department discarded military and federal employee wage verification documents supporting their eligibility for unemployment insurance (CFDA #17.225) benefits.

Auditor's Recommendations:

- The department should comply with its record retention schedules and preserve records supporting military and federal employee unemployment benefits until they are audited or electronically captured and stored.

**Response: We agree. The retention schedule done in 1982 is outdated and was not followed. It is in the process of being updated from focusing on paper documents to focusing on the data in an electronic environment. However, all military and federal documents are maintained by the Federal Claims Control Center (FCCC).**

**Responsible Person: Kathy Nelson 651-296-1692**

Auditor's Finding 3. Prior Finding Partially Resolved: The department did not consistently monitor and report project expenditures for the federal Community Development Block Grant Program (CFDA #14.228).

Auditor's Recommendations:

- The department should comply with federal Community Development Block Grant program requirements by:
  - ensuring that environmental review certifications are filed and that environmental reviews are completed as required by federal regulations;

**Response: We agree. We have a record of clearing the environmental, but we have no record of the environmental in our electronic files. We will ensure that the reviews are received and retained.**

- ensuring it receives timely subrecipient audits and that any audit issues are adequately monitored and resolved; and,

**Response: We agree. We will develop a system to track required audits to meet the nine month deadline. We will ensure that audit issues are monitored for resolution.**

James R. Nobles  
March 20, 2007  
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- submitting a timely and accurate Performance and Evaluation Report to the federal Housing and Urban Development Agency.

**Response: We agree. We will require all annual reports into our office by September 30 of each calendar year which will ensure the submission of the Performance and Evaluation Report to HUD by the December 31<sup>st</sup> deadline.**

- The department should exclude the state match in reporting the Community Development Block Grant Program's federal expenditures in the Minnesota Financial and Compliance Report on Federally Assisted Programs.

**Response: We agree. We will work with the Department of Finance to ensure that the reports provided to the department do not include match. We will increase oversight review to prevent possible future errors.**

**Responsible Person: Reed Erickson 651-297-1980  
John Stavros 651-259-7085**

Auditor's Finding #4. The department did not ensure that vocational rehabilitation (CFDA #84.126) grant contracts had a required certification prohibiting grantees from using suspended or debarred vendors.

Auditor's Recommendation:

- The department should ensure that all vocational rehabilitation grant contracts contain a suspension and debarment certification indicating that the grantee will not use federal funds to pay vendors who are suspended or debarred by the federal government.

**Response: We agree. We have included the required language, as an attachment, to all contracts this year. Beginning March 15, 2007, all new contracts will be issued with the required suspension and debarment certification language included in the standard provisions. This eliminates the possibility of failing to include the attachment containing the required certification.**

**Responsible Person: Kimberly Peck 651-296-7510**

If you have questions or comments, please contact John Stavros, Chief Financial Officer at 651-259-7085.

Sincerely,



Dan McElroy  
Commissioner