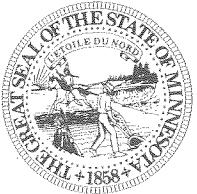


**DEPARTMENT OF LABOR AND INDUSTRY
FINANCIAL AND COMPLIANCE AUDIT
FOR THE TWO YEARS ENDED JUNE 30, 1985**

SEPTEMBER 1986

**Financial Audit Division
Office of the Legislative Auditor
State of Minnesota**



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

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JAMES R. NOBLES, LEGISLATIVE AUDITOR

Senator Randolph W. Peterson, Chairman
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. Steve Keefe, Commissioner
Department of Labor and Industry

Audit Scope

We have completed a financial and compliance audit of the Department of Labor and Industry for the two years ended June 30, 1985. Section I includes a brief description of the department's activities and finances. Our audit was made in accordance with generally accepted auditing standards and the standards for financial and compliance audits contained in the U.S. General Accounting Office Standards for Audit of Governmental Organizations, Programs, Activities, and Functions, and accordingly, included such audit procedures as we considered necessary in the circumstances. Our audit procedures are further described in the audit techniques section of this letter. Field work was completed on May 30, 1986.

We have issued separate management letters, dated February 22, 1985 and December 17, 1985, as a part of our Statewide and Single Audit work in the department for fiscal years 1984 and 1985. The management letters contained eight recommendations for fiscal year 1984 and one recommendation for fiscal year 1985, relating primarily to the Special Workers' Compensation Fund and the State Employees Revolving Fund.

The objectives of the audit were to:

- study and evaluate major internal control systems at the Department of Labor and Industry, including a review of receipts, payroll, other administrative expenditures, and fixed assets;
- verify that financial transactions were made in accordance with applicable laws, regulations and policies, including Minnesota Statute Chapters 175-178, 181, 181A, 181B, 182-184 and 326, and other finance-related laws and regulations;
- verify that financial transactions were properly recorded on the statewide accounting system; and
- determine the status of prior audit recommendations.

Management Responsibilities

The management of the Department of Labor and Industry is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgements by management are

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required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

The management of the Department of Labor and Industry is also responsible for compliance with laws and regulations. In connection with our audit, we selected and tested transactions and records from the programs administered by the Department of Labor and Industry. The purpose of our testing of transactions was to obtain reasonable assurance that the department had, in all material respects, administered its programs in compliance with applicable laws and regulations.

Audit Techniques

The Statewide Financial and Single Audit for the two years ended June 30, 1985, covered material state and federal programs, such as the Special Workers' Compensation Fund, the State Employees Revolving Fund, and the Occupational Health and Safety Act (OSHA). This departmental audit which also covered the two years ended June 30, 1985, supplements the Statewide Financial and Single Audit and was specifically designed to review administrative expenditures, including payroll, travel, contractual services and other operating expenses, and fixed assets.

Conclusions

In our opinion, except for the issues raised in Section II, recommendations 1-7, 9-11, and 13, the Department of Labor and Industry's system of internal accounting control in effect on June 30, 1985, taken as a whole, was sufficient to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly.

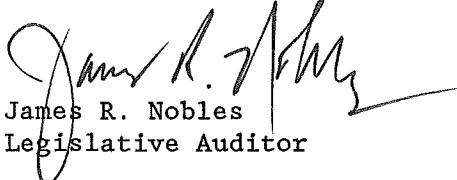
In our opinion, except for the issues raised in Section II, recommendations 8 and 12, and the issue discussed in our management letter dated February 22, 1985, recommendation 4 and repeated in our management letter dated December 17, 1985 for the two years ended June 30, 1985, and the issue discussed in our management letter dated February 22, 1985 recommendation 7 for the twenty one months ended April 1, 1985, the Department of Labor and Industry administered its programs in compliance, in all material respects, with applicable finance-related laws and regulations.

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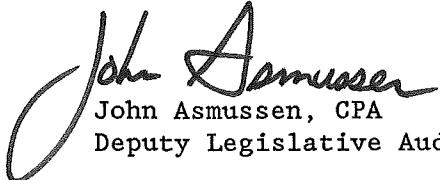
In our opinion, for the two years ended June 30, 1985, the Department of Labor and Industry properly recorded, in all material respects, its financial transactions on the statewide accounting system.

The recommendations included in this audit report are presented to assist the department in improving accounting procedures and controls. We will be monitoring and reviewing your progress on implementing these recommendations after the dates projected for completion as identified in the response to this report. A summary of the progress made on all audit recommendations discussed in our last audit report covering the two years ended June 30, 1981, dated June 28, 1982 is shown in Section III entitled "Status of Prior Recommendations and Progress Towards Implementation."

We would like to thank the Department of Labor and Industry staff for their cooperation during this audit.



James R. Nobles
Legislative Auditor



John Asmussen
John Asmussen, CPA
Deputy Legislative Auditor

September 8, 1986

DEPARTMENT OF LABOR AND INDUSTRY

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AUDIT PARTICIPATION

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

John Asmussen, CPA	Deputy Legislative Auditor
Tom Donahue	Audit Manager
J. Michael Stoffel	Auditor-in-Charge
Charles Hoistad	Staff Auditor
Sandra Linn	Staff Auditor

EXIT CONFERENCE

The findings and recommendations in this report were discussed with the following staff of the Department of Labor and Industry at an exit conference held on June 18, 1986:

Steve Keefe	Commissioner
David Renz	Assisstant Commissioner
Charles Curren	Assisstant Commissioner
Anina Bearrood	Accounting Director

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I. INTRODUCTION

The Department of Labor and Industry is primarily a regulatory agency concerned with protecting the rights of working people in Minnesota. It provides advisory services to employers and the general public. The department seeks to preserve the human and material resources of the state by providing safe and healthful working environments, assuring payment of legal compensation for work performed, administering apprenticeship programs and providing care and benefits for individuals suffering from occupational injuries. The department also provides general protection to the public by licensing and inspecting establishments operating high pressure boilers and steam equipment.

Administrative costs of the Department of Labor and Industry are financed primarily through General Fund appropriations and federal grants. Fiscal year 1985 expenditures of the department are shown below.

	GENERAL FUND	FEDERAL FUND	OTHER FUNDS	TOTAL
Personal Services	\$ 5,747,210	\$ 1,090,658		\$ 6,837,868
Expense & Contractual Services	2,647,863	745,593	54,292	3,447,748
Supplies & Materials	93,948	29,733	6,841	130,522
Equipment	296,842	35,805		332,647
Grants	<u>233,993</u>			<u>233,993</u>
TOTAL	\$ 9,019,856	\$ 1,901,789	\$ 61,133	\$10,982,778

In addition, the Department of Labor and Industry paid approximately \$54.7 million in workers' compensation claims during fiscal year 1985.

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II. CURRENT FINDINGS AND RECOMMENDATIONS

DEPARTMENT RECEIPTS

The Department of Labor and Industry collected receipts of approximately \$54 million and \$71 million in fiscal years 1984 and 1985, respectively. The department's several divisions have the responsibility for assessing and/or collecting various receipts, including workers' compensation payments, licensures, inspections, certifications, and penalties. The appropriate division holds the receipt until the division records are updated. The receipts are then forwarded to the department's accounting section for deposit.

In this environment, each division encounters the same control and risk factors, yet each division is not equally equipped (in terms of manpower or other resources) to develop procedures and establish and maintain the necessary controls over its receipts. An alternative method is to establish a central cashier function in the department. The function of the central cashier would be to receive all cash or checks that are received in the mail, and to prepare these receipts for deposit. No division personnel would have access to the cash receipts. Instead, the central cashier would prepare a listing of receipts that were deposited each day for each division. A copy of the listing and any documents received with the payment would be forwarded to the appropriate division. A method such as this would ensure the prompt deposit of all funds into the state treasury. If division personnel find that the amount received and deposited was incorrect, a refund could be issued or the account could be billed for the amount due. This method would also strengthen the internal controls over receipts because the processing of the deposits would be removed from the division personnel who usually determine the amount of the charges and who are responsible to reconcile receipts to the deposits. The department may wish to consider this as an option to resolving recommendations 1, 9, and 11.

Cash receipts are not always deposited in a timely manner.

According to Minn. Stat. Section 16A.275, an agency shall deposit receipts totaling \$250 or more in the state treasury daily. A number of divisions in the department do not adhere to this requirement:

- The occupational safety and health unit makes deposits only once each week, usually on Mondays. All cash receipts are kept in a locked desk drawer until they are forwarded to the accounting division for deposit. Receipts seldom total less than \$1,000 during any one week and can be as high as \$10,000 to \$12,000.
- The fee employment agency section of the labor standards division keeps all receipts until they total \$250, and then forwards them to the accounting division for deposit. The statute specifies that deposits of the agency shall be deposited when they total \$250, not that deposits of each division of an agency are to be deposited when equal to \$250.

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- Fees collected by the workers compensation records center for photocopying charges are deposited only once each week. Receipts for these charges can range from \$200 to \$1200 per week. These receipts are kept in a locked box in an employee's desk until forwarded to the accounting division. Receipts may be quite large since the department allows regular users of the service to prepay on their account (see recommendation #11).

Delays in processing receipts may be caused by the methods followed for distributing the mail received at the department. Mail is received first at the mail room where it is date stamped and sorted. Employees in the mail room make the deliveries to the particular divisions of the department. Division employees remove cash receipts from the mail and may record the receipts in a daily log book, or check the amount received to ensure it is the proper amount, or may actually receive an amount that should have been delivered to another division. Any one of these instances may cause a delay in depositing the receipts.

If a cashier function, as discussed above, is determined to be impractical, then the department must take other steps to ensure that all divisions comply with Minn. Stat. Section 16A.275.

RECOMMENDATION:

1. *The department should consider establishing a centralized cashier function. If a central cashier function is determined not feasible, all divisions should deposit their receipts daily.*

Receipt records of the department's various divisions are not reconciled to the deposit totals on the Statewide Accounting (SWA) System.

Receipt records are maintained and updated each day in the various divisions that receive payments. After the records of the division are updated, the receipts are forwarded to the department's accounting section. The accounting section prepares the SWA deposit slips and indicates the account on SWA where the deposit should be made. The receipts and deposit slips are then delivered to the Department of Finance and deposited. Each month the accounting division receives reports from the Department of Finance that show how the amounts were deposited on the SWA system.

The accounting section does not distribute the monthly receipt reports from the SWA system to all of the various divisions of the department. Without having access to the receipt and deposit information on SWA, the divisions cannot be sure that deposits were made to the correct accounts or in the right amount. Division personnel are in the best position to ensure that deposits are made correctly, since they would have all supporting documentation for the receipts and would be most familiar with the

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source and purpose of the amounts received. Additionally, if the divisions received the deposit information, they would be able to reconcile the deposit totals on SWA to their receipt records. For instance, the deposits as shown on SWA should be reconciled to licenses issued, to fines or penalties collected, or to other supporting documentation in the divisions. Ideally this type of reconciliation should be done by someone in the division who does not have access to the cash receipts.

RECOMMENDATION:

2. *The accounting section should distribute the monthly SWA receipt reports to the various divisions that collect receipts. The reports should be used to reconcile the supporting receipt records at the divisions to the deposit information on the SWA system.*

CODE ENFORCEMENT DIVISION - INSPECTIONS AND RECEIVABLES

The primary responsibility of the code enforcement division is to prevent injuries, loss of life, and property damage from boiler and pressure vessel explosions or malfunctions. The division fulfills this responsibility through licensing and examining boiler engineers and by inspecting all boilers and pressure vessels in the state. According to Minn. Stat. Section 183.42, all boilers are required to be inspected once each year and all pressure vessels once every two years. Boilers and pressure vessels are inspected either by the division's inspectors, or if insured, by inspectors from the insurance company. If inspected by the division, a fee is charged to the owner of the equipment and a certificate of inspection is issued. When an insurance company completes an inspection, they are required to submit an inspection report to the code enforcement division. The division issues an annual exemption certificate for equipment that is insured. During fiscal years 1984 and 1985, receipts from inspection fees totaled approximately \$163,000 and \$173,000, respectively; and receipts from exemption fees totaled \$274,000 and \$271,000, respectively.

No inspection slips were found for the inspections performed by the department in fiscal year 1984.

Inspectors from the code enforcement division normally prepare inspection slips for each inspection they perform. Inspection slips are used to identify the name and address of the owner of the equipment, the type of equipment inspected, date of inspection, and the fee charged as determined by the inspector. The fees are based on the number of boilers or pressure vessels inspected, size and accessibility of the object inspected. The inspection slips should verify that the fee charged was correct.

We tested 12 certificates of inspection issued during fiscal year 1985 and traced the fees charged to the appropriate supporting inspection slip. We noted that the correct fees had been charged. However, inspection slips were missing for 9 of the 10 certificates of inspection we tested that were issued during fiscal year 1984. We were told that old inspection

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slips were discarded because of the lack of filing space. Without the inspection slips or any other record of the work done, it is impossible to determine if the inspections were performed and the fees charged by the inspectors were proper.

RECOMMENDATION:

3. *The code enforcement division should keep the inspection slips to support fees charged and subsequent billings.*

Certificates of exemption are issued without evidence that inspections are performed by insurance companies.

Certificates of exemption are issued by the code enforcement division for boilers and pressure vessels insured and inspected by insurance companies. According to Minn. Stat. Section 183.57 Subd. 4, the department may issue an exemption certificate if they have an indication that an inspection has been or will be done by an insurance company. Once an insurance company completes an inspection, they are required to submit an inspection report to the department within 15 days. This should allow the department to monitor the inspections by insurance companies and ensure that all boilers and pressure vessels are inspected.

Of the 25 certificates of exemption tested that were issued in fiscal years 1984 and 1985, 17 were missing inspection reports from the insurance company. Some were missing inspection reports for only one year or for only some of the equipment, while others were missing inspection reports for all equipment for many years. When the employees who process the exemption certificates were questioned they said they automatically issue new certificates when the old ones expire. They said they do not normally verify that inspection reports are received from the insurance companies for each exemption certificate they send out. Without verifying that an inspection report is received, the department cannot be assured that all inspections are being done by the insurance companies. In addition, the department is not necessarily collecting all revenues that it should be. Since the department is ultimately responsible for the inspection of all boilers and pressure vessels in the state, any accident, injury, or damage caused by defective equipment could potentially result in liability being assessed against the state.

RECOMMENDATION:

4. *The code enforcement division should not issue exemption certificates unless the required inspection has been performed and supported by an inspection report.*

The billing and collection procedures followed by the code enforcement division for the certificates of inspection and the certificates of exemption are inadequate.

The code enforcement division maintains accounts for all unpaid certificates of inspection and certificates of exemption. The total of all outstanding accounts is usually large and is a material asset of the

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division. Information from the division for the most recent three months, March - May, 1986, indicated that accounts receivable for inspections ranged from \$16,252 to \$18,907; and accounts receivable for certificates of exemption ranged from \$25,105 to \$29,415. Employees indicated that it was the policy of the division to send a billing notice to all outstanding accounts every month. Follow up billings were sent out approximately once every 2 to 3 months. A copy of the billing statement is on file for each account and is stamped with the billing date each time the account is billed.

Certificates of inspection are issued to owners of boilers and pressure vessels after their equipment has been inspected by the code enforcement division. The certificates of inspection are multiple copy forms. The white official copy is sent to the owner of the equipment to be displayed. The colored carbon copies are department file copies and are occasionally used as billing statements sent to the owner. However, rather than send the carbon copies as billing statements, the code enforcement division sends the official copy of the certificate. The owners of the equipment therefore have their official copy before having paid the applicable fee.

Subsequent billings are sent in a somewhat random fashion. For most accounts that we reviewed, only one or two follow-up bills were sent before the accounts became inactive. For certificates of exemption, an original bill is sent out before the current certificate expires and if payment is not received, a follow up billing is sent. In some cases we noted that follow up bills were not sent for up to a year after the original billing.

There are several options available that the code enforcement division could consider in collecting outstanding accounts. The division could use the revenue recapture act to obtain any income tax refunds due to a taxpayer. The division could refuse to issue any new certificates of inspection or exemption if there are outstanding accounts from prior years. According to Minn. Stat. Section 183.54 Subd. 3, the division also has statutory authority to seal boilers and pressure vessels of owners that refuse to pay the required fee within 30 days from the date of inspection. Although this may be inappropriate for accounts under \$100, it could be considered for larger accounts or accounts that are continuously delinquent. To reduce outstanding receivables in the future, the official copies of the certificates of inspection should be mailed only after the applicable fee has been paid.

In addition, we noted 61 state accounts outstanding with some that were over a year old. These accounts are billed only once and are usually paid by interdepartmental transfer. When notice of a transfer is received, the account is closed. However, a record of the transfer is not always received, even though the transfer was made. As a result, the accounts receivable may be overstated. The billing clerk said that some of these accounts may have actually been paid. A thorough review has not been done of the state accounts to determine the validity of the state receivable. By not following more systematic billing procedures, these accounts may remain unpaid for an unreasonable length of time.

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RECOMMENDATIONS:

5. *The Department of Labor and Industry should not issue certificates of inspection until after the applicable fee has been paid.*
6. *The code enforcement division should more aggressively and consistently attempt to collect on outstanding accounts. Regular billings should be sent out and other collection strategies should be considered.*
7. *Accounts with state agencies should be billed on a regular basis. A thorough review of all state accounts currently outstanding should be done to determine the validity of the receivable record.*

The code enforcement division has improperly written off old, outstanding accounts.

According to Minn. Stat. Sections 10.12 and 10.15, accounts may be written off only after obtaining approval from either the Executive Council or the Commissioner of the Department and the Attorney General, depending on the amount of the account. In addition, accounts over \$500 can be written off only if they have been outstanding more than three years. The Commissioner is also required to send a certified list of the accounts being written off to the Department of Finance.

When testing accounts receivable records, we found that accounts are being written off without obtaining approval from the proper authority and without notifying the Department of Finance. Information was not available to us as to the amount of accounts written off since this data is not maintained. The code enforcement division should improve the internal controls over their accounts receivables to ensure that state assets are adequately protected and to maximize potential for collection.

RECOMMENDATION:

8. *The Department of Labor and Industry should not write off code enforcement division accounts except in accordance with Minn. Stat. Section 10.12 and 10.14.*

LABOR STANDARDS DIVISION - FEE EMPLOYMENT AGENCY SECTION - RECEIPTS

The Employment Agency Section of the Division of Labor Standards is the regulatory body delegated with the responsibility of examining and licensing employment agencies, search firms, entertainment agencies, and their related personnel. In order to operate in the State, these firms and their personnel must be registered and licensed. This ensures that these firms are aware of the statutes, rules and regulations governing the industry and also provides a means of redress for aggrieved parties. Receipts of examination and license fees totaled approximately \$40,000 during fiscal year 1984, and \$51,000 during fiscal year 1985.

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There is a lack of segregation of duties in processing the receipts of fee employment agencies.

All applications and fees relating to the application or renewal of licenses for employment agencies and entertainment agencies and the registration of search firms are sent to the supervisor in the fee employment agency section. The supervisor reviews the applications for completeness and ensures that any requirements for the particular license or registration are met. The supervisor has custody of the fees while this review process takes place. When the applications or renewals are approved by the supervisor, the fees are forwarded to a secretary who prepares the receipts for deposit. The supervisor then issues initial or renewal licenses or registration letters to applicants that have been approved. Each month the supervisor is responsible to account for the number of licenses used. All files relating to the licensing of the fee employment agencies, search firms, and entertainment agencies are also maintained by the supervisor.

A weakness in internal control exists when one person has too much control over an entire process. In the fee employment agency section, the supervisor is responsible for every aspect of the licensing and registration process. When one person has responsibility for an entire process the chances increase that errors or irregularities will go undetected. There are options that may eliminate the concentration of duties without causing a disruption to the process. For instance, someone other than the supervisor could receive and remove from the mail any receipts. The receipts could be listed and deposited at that time. The mail list of receipts along with the applications could then be forwarded to the supervisor for the review process. If an application is received with an inappropriate fee, the applicant could be sent a refund or billed for the difference. In any case, the person approving and reconciling licenses should not have access to cash receipts.

RECOMMENDATION:

9. *Someone other than the supervisor in the fee employment agency division should remove all receipts from the mail and prepare the receipts for deposit.*

OCCUPATIONAL SAFETY AND HEALTH DIVISION - COMPLIANCE UNIT - RECEIVABLES

The compliance unit of the occupational safety and health division performs inspections of places of employment to ascertain compliance with state laws and regulations relating to occupational safety and health. When an infraction or noncompliance is found, the compliance unit issues a citation and indicates to the owner the date by which the violation must be resolved. A monetary penalty may also be issued against the employer. Receipts from penalties totaled approximately \$225,000 in fiscal year 1984, and approximately \$254,000 in fiscal year 1985.

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Penalties assessed by the compliance unit are not adequately monitored.

When the compliance unit assesses a penalty, a notification of proposed penalty is sent to the employer. The employer is allowed 15 working days to either contest the penalty or to submit the payment. According to the procedures manual of the compliance unit, when neither a notice to contest or payment is received within the 15 day period, certain steps are to be followed. If payment is not received after 30 days of notification, a collection letter is to be sent to the employer. If payment is not received within 65 days after notification, a second collection letter is to be sent to the employer indicating that the fine may be recovered in a civil action against the employer. If payment is not received within 95 days after notification, the case file is to be given to the Attorney General's Office for initiation of a collection suit. The procedures specified in the manual establish a very aggressive collection schedule.

However, the compliance unit is not following the steps specified in its procedures manual. Of the 40 outstanding accounts we reviewed, 23 were not sent collection letters until four to six months after the initial notification. Additionally, in some cases second requests for payment were not sent until six to nine months after the initial notification; and third requests for payment were not sent for eight to twelve months after initial notification.

One suggestion that may improve the unit's ability to meet the time frames specified in its procedures manual would be the preparation of an aging schedule of all outstanding accounts. An aging schedule lists all outstanding accounts in chronological order and could be used to determine the action to be taken on any particular account. We found no indication that this type of schedule is prepared on a regular basis, and that the compliance unit only occasionally reviews the entire file of outstanding accounts. With this current system, an account may be overlooked and not actively pursued until the file is reviewed again some time later.

RECOMMENDATION:

10. *The compliance unit should follow up on all outstanding accounts on a more timely and consistent basis as specified in their procedures manual.*

OTHER DEPARTMENT OPERATIONS

There is a concentration of duties in the workers' compensation records center concerning the receipt of photocopy fees.

The workers' compensation record center has a copying machine available for attorneys, insurance companies, or individuals who desire photocopies of documents relating to their individual case. A fee is charged by the records center for the copies made, sales tax is assessed, and postage is added if the copies are to be mailed. Payments to the record center are usually made by check but may also be made in cash. Regular users of the

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service are also allowed to prepay an amount and establish an account with the department for future photocopy needs. A running balance is maintained for accounts that are prepaid, and when the account nears zero, the clerk in the record center notifies the user. A payment is usually made at that time by the user for the account. During fiscal years 1984 and 1985, cash receipts in the workers' compensation record center for photocopying totaled approximately \$28,000 and \$33,000, respectively.

One individual is responsible for every aspect of the process. This individual collects the fees, maintains custody of the fees until forwarded to the accounting division for deposit (usually once each week), prepares the receipt log to record the number of copies made and payments received each day, maintains the account cards for accounts that are prepaid, and prepares the billing of prepaid accounts. Currently, there is no method of verifying that the fees charged are proper or that all fees collected are deposited.

Although the amount of cash receipts for photocopy fees is small compared to total departmental receipts, having one individual in complete control of a cash operation is not desirable. The individual who maintains the records over the photocopying accounts should not collect the fees.

RECOMMENDATION:

11. *The workers' compensation record center should have an individual who does not maintain the records over the photocopying accounts collect the fees.*

The personnel unit does not obtain authorization from the Department of Employee Relations (DOER) when processing payroll advances from imprest cash.

Statewide accounting operating policy and procedure 07:04:19 allows state employees a payroll advance from their department's imprest cash account if they are entitled to, but have not received a payroll warrant from the central payroll system. This situation may arise when delays or errors occur in processing changes or additions to the payroll system, and an employee is not paid. According to Minn. Stat. Section 43A.37, Subd. 1, the Commissioner of DOER is ultimately responsible to certify that all persons being paid a salary or compensation have been properly appointed and that the compensation is correct. Therefore, the operating procedure specifies that the agency personnel unit first obtain written authorization from DOER before any payment for compensation is made from the agency imprest cash account.

During fiscal years 1984 and 1985, forty-five payroll advances were made from the department's imprest cash account, totaling \$11,003. Only five advances were approved by DOER, and forty advances totaling \$9,157 were made without approval from DOER. New employees in the personnel unit were unaware that such a requirement existed.

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RECOMMENDATION:

12. *The Department of Labor and Industry should obtain written authorization from the Department of Employee Relations (DOER) for any payroll advances paid from the imprest cash account.*

No records are kept of the periodic spot-checks done of fixed assets.

According to regulations from inventory management division of the Department of Administration, spot-checks of fixed asset inventory should be done in each area of an agency at least annually. Spot-checks provide a basis for ensuring an accurate accounting and proper utilization of the state's fixed assets.

In testing controls over fixed asset inventory, we could find no records or evidence that spot-checks were being done. The inventory custodian assured us that he is conducting spot-checks as required but said he has not kept records of these tests. Failure to keep records of spot-checks makes it difficult for management to identify areas of weakness so that corrective action can be taken.

RECOMMENDATION:

13. *Records of spot-checks should be kept to show what areas have been tested, when they were tested, and the results of the spot-checks.*

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STATUS OF PRIOR RECOMMENDATIONS
AND

PROGRESS TOWARD IMPLEMENTATION

Labor Standards Division - Prevailing Wage Section

Limited response to the mail-in surveys may adversely affect the determination of prevailing wage rates.

1. The Department of Labor and Industry should consider the following options in attempting to get more representative responses to the mail survey:

- Discuss the survey with various non-responding contractors to determine if confusing regulations or burdensome forms are the reason for noncompliance.
- Work with the Department of Transportation regarding a possible requirement that in order to bid on future state contracts, the prevailing wage survey must be completed.
- Consider a revision of the regulations whereby a minimum county response rate is required or the prevailing rate would be determined based upon regional or statewide averages.
- Review with the Department of Transportation and other appropriate agencies whether future state highway and building construction is primarily scheduled in certain areas of the state and, if so, place emphasis on obtaining responses from those counties.

Recommendation Implemented. The department has considered the options listed and has revised the contractor's survey form and set a minimum county response rate.

2. The department should develop a method for verification of the data upon which prevailing wage determinations are made including:

- Coordinate with the Department of Transportation to determine if their payroll audits may be used as a basis for some wage verification.
- Request additional staffing so that regular on-site payroll audits can be performed for a random sample of contractors.
- Consider whether a requirement that contractors submit copies of payroll records directly to the department would provide additional documentation or further discourage contractor response.

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Recommendation Implemented. The department has considered the suggestions made to develop a method for verification of the date upon which prevailing wage determinations are made.

Labor Standards Division - Employment Agency Section

Internal controls over employment agency licenses and receipts need improvement.

3. Prior to issuing duplicate licenses, original licenses should be returned to the Department of Labor and Industry. When received, they should be voided and kept on file.

Recommendation Implemented. Prior to the issuance of a duplicate license, the original license is obtained from the employment agency.

4. A log of duplicate licenses issued should be maintained by control number. Either blank/unnumbered licenses should be used as duplicates or else new control numbers should be assigned. Prenumbered licenses should not be altered, nor should xerox copies of blank licenses be made.

Recommendation Implemented. A log is now maintained of all licenses issued, in license number order.

5. The total number of licenses issued should be reconciled to the total amount of license receipts collected on an annual basis.

Recommendation Substantially Implemented. Licenses issued are reconciled to applications. In the future, licenses issued and receipts will be reconciled through the computer.

6. Bond filing fees should not be routed to the Secretary of State through inter-office mail. The Department of Labor and Industry should work with the Secretary of State to revise procedures so that the department deposits receipts directly in the State Treasury and forwards a copy of the deposit slip to the Secretary of State.

Recommendation Implemented. The bond filing fees are no longer delivered through inter-office mail. The fees are now delivered to the Secretary of State's office with the courier that makes other deliveries in the capitol complex each day.

DEPARTMENT OF LABOR AND INDUSTRY

Boiler Inspection and Steamfitting Standards Division

Boilers and pressure vessels are not being inspected in accordance with statutory time frames.

7. Inspections should be made in compliance with Minn. Stat. Section 183.42. Periodic reviews should be made by the inspection supervisor to determine if inspections are on schedule. If it is found that all inspections cannot be made during a year, inspectors should be reassigned so that all areas of the state are adequately covered by inspections.

Recommendation Implemented. Currently, the department appears to be doing as much as practicable to identify boilers in the state and to perform timely inspections of boilers not insured and inspected by insurance companies.

Controls over cash receipts need to be strengthened.

8. Field collection of inspection fees should be discontinued. All fees should be collected through the present billing system.

Recommendation Implemented. Inspectors no longer collect inspection fees. All fees are mailed or delivered to the Department of Labor and Industry.

9. Examination fees should be collected by the cashier after the exam administrator has determined which examination the applicant will be taking.

Recommendation Implemented. Examination fees are no longer collected by the person who administers the examinations. There is a person at each examination site who is responsible for collecting all examination fees.

All licenses were not accounted for adequately.

10. A recording of all license numbers issued or voided should be maintained and a periodic reconciliation between total licenses issued and total license receipts should be made.

Recommendation Implemented. A log is maintained of every license number issued or voided. All voided licenses are segregated and saved. Each month a reconciliation is done of the amounts deposited to the amount of license receipts.

The internal control procedures over cash receipts need to be strengthened in the OSHA Compliance Division.

11. The person who opens the mail should prepare and maintain a listing of all cash and checks received daily. This listing should be compared with the daily cash report given to the accounting section.

DEPARTMENT OF LABOR AND INDUSTRY

Recommendation Implemented. A daily receipt log is prepared each day by the person who opens the mail. The daily receipt log is compared to the daily cash report that is forwarded along with the actual receipts to the accounting division.

The Department of Labor and Industry doe not consistently follow the systems, policies, and procedures established by the Department of Administration, Inventory Management Division (IMD), for the accurate and timely accounting for and security over the state's fixed assets.

12. The Department of Labor and Industry should conduct a complete physical inventory of all fixed assets.

Recommendation Implemented. A complete physical inventory has not been completed since our last audit. However, the department was in the process of taking a physical inventory at the time of the current audit. This inventory is scheduled to be completed by August 1986.

13. The state property inventory list should be updated to reflect the current possession of fixed assets and correct location of the assets.

Recommendation Implemented. The department has updated its inventory records as required and is currently working with the Inventory Management Division of the Department of Administration in implementing the new fixed asset inventory system.

14. Regular spot-checks of all divisions within the Department of Labor and Industry should be conducted at least annually and records of the results kept on file.

Recommendation Partially Implemented. Records are not kept of the results of the spot-checks. See current recommendation #13.

15. Written procedures should be prepared and followed for reporting obsolete or surplus property to the inventory custodian and for proper disposition of these assets.

Recommendation Implemented. The written procedures in the fixed asset inventory users manual from the Department of Administration are used and followed for reporting and disposing of obsolete or surplus property.

16. Written procedures should be prepared for employees involved in the physical inventory counts or the regular spot-checks.

Recommendation Withdrawn. We no longer consider this recommendation to be necessary since one employee performs essentially the entire physical inventory alone and written procedures would not enhance the process.

DEPARTMENT OF LABOR AND INDUSTRY

Repayment agreements are not on file to support payroll advances made out of the department's imprest cash account.

17. Certification of payment and/or repayment agreements should be obtained from employees and kept on file to support payroll advances made from the imprest cash fund.

Recommendation Implemented. Since the time of the last audit, employees have been required to sign a certification of payment and agreement to repay whenever they receive a payroll advance.

MINNESOTA DEPARTMENT OF LABOR AND INDUSTRY

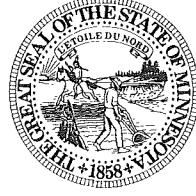
444 Lafayette Road

Saint Paul

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September 8, 1986

James Nobles
Legislative Auditor
Veterans Service Building
St. Paul, Minnesota 55155

Dear Mr. Nobles:

Thank you for the opportunity to review and comment on the issues addressed in the report of your financial and compliance audit of the Department of Labor and Industry for the two years ending June 30, 1985. We concur with the findings and recommendations, and we have taken steps to address each of the issues which were included.

A key issue in several of the findings and recommendations was the handling and deposit of departmental receipts. Action has been taken to address short-term concerns, and the department will reevaluate the option of creating a centralized cashier function. The review of centralized cashier options (Recommendation #1) will be implemented by Accounting Director Anina Bearrood, and a decision will be made on department action by December 31, 1986. This decision and related procedural changes will address recommendations #2, 9 and 11. At this time, the department has changed receipt handling and reconciliation procedures to implement recommendations #2, 9 and 11. Accounting Director Anina Bearrood is responsible for their continued implementation.

Recommendations #3 through #8 relate to operations of the Code Enforcement Division. We concur with these recommendations and have begun to implement corrective actions for each. The records system is now being computerized and will achieve much better coordination and timeliness between inspections, billings, and collections. This action will implement recommendations #3 through #7. Recommendation #8 regarding the write-off of uncollectable accounts, will be implemented effective immediately in accordance with Minn. Stat. Section 10.12 and 10.14. Continued implementation of these six recommendations will be the responsibility of Code Enforcement Director B. James Berg.

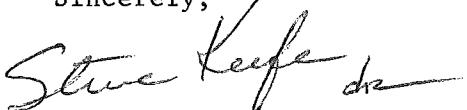
Recommendation #10 suggests that the Occupational Safety and Health compliance section actively implement the procedures specified in the division's manual to ensure timely collection and follow-through on unpaid penalty assessments. This recommendation will be implemented immediately, and is the responsibility of Division Director Ivan Russell.

James Nobles
September 8, 1986
Page Two

Recommendation #12 regarding payroll advance authorization has been implemented, and is the responsibility of Human Resources Director David Abrams. Inventory Controller Ron Cyr, has implemented recommendation #13 to keep accurate inventory spot-check records as well.

We appreciate the work which has gone into auditing our operations. Your comments and recommendations have helped us to assess the effectiveness of Labor and Industry's program operations, and develop additional ways to improve our management. We look forward to working with you and your staff in the future.

Sincerely,



Steve Keefe
Commissioner

SK/11s