

**DEPARTMENT OF JOBS AND TRAINING  
FINANCIAL AND COMPLIANCE AUDIT  
FOR THE THREE YEARS ENDED JUNE 30, 1986**

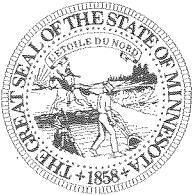
---

**APRIL 1987**

---

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





STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

VETERANS SERVICE BUILDING, ST. PAUL, MN 55155 • 612/296-4708

JAMES R. NOBLES, LEGISLATIVE AUDITOR

Representative Phillip J. Riveness, Chairman  
Legislative Audit Commission

Members of the Legislative Audit Commission

and

Mr. Joseph Samargia, Commissioner  
Department of Jobs and Training

Audit Scope

We have completed a financial and compliance audit of the Department of Jobs and Training for the three years ended June 30, 1986. Section I provides 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. Fieldwork was completed on March 10, 1987.

We have issued separate management letters dated February 22, 1985, February 28, 1986, and February 25, 1987, as part of our Statewide Financial and Single Audit work in the department for fiscal years 1984, 1985, and 1986. The name was the Department of Economic Security during fiscal year 1984. The management letters contained five recommendations for fiscal year 1984, four recommendations for fiscal year 1985, and five recommendations for fiscal year 1986, relating primarily to the administration of state and federal programs by the department.

The audit objectives were to:

- study and evaluate major Department of Jobs and Training (DJT) internal control systems, including disbursements, cash funds, and fixed assets;
- verify that financial transactions were properly recorded in the statewide accounting (SWA) system; and
- verify that financial transactions were made in accordance with applicable laws, regulations, and policies, including Minn. Stat. Chapters 129A and 268, and other finance-related laws and regulations.

The Department of Jobs and Training includes many job service and vocational rehabilitation offices located throughout the state. As part of this audit we visited the following offices:

Representative Phillip J. Riveness, Chairman  
Members of the Legislative Audit Commission  
and  
Mr. Joseph Samargia, Commissioner  
Page 2

- Job service -- Minneapolis, Mankato, Faribault, Rochester, Hibbing, Virginia, and Duluth
- Vocational rehabilitation -- St. Paul, White Bear Lake, Minneapolis, Mankato, Faribault, Rochester, Hibbing, Virginia, and Duluth

#### Management Responsibilities

The management of Jobs and Training is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgements by management are 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 Jobs and Training is also responsible for the department's compliance with laws and regulations. In connection with our audit, we selected and tested transactions and records from the programs administered by the department. The purpose of our testing of transactions was to obtain reasonable assurance that Jobs and Training 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 three years ended June 30, 1986, covered material state and federal programs such as Wage Subsidy, Unemployment Insurance, Low Income Energy Assistance, Job Training Partnership Act, and Rehabilitation Services - Basic Support. This departmental audit, which also covered the three years ended June 30, 1986, supplements the Statewide Financial and Single Audit and was specifically designed to review unemployment insurance benefits, vocational rehabilitation payments, imprest cash, fixed assets, and travel expenditures at the central office and the field offices listed in the audit scope. We also reviewed the controls in effect over all federal programs not covered in the fiscal year 1986 Single Audit.

Representative Phillip J. Riveness, Chairman  
Members of the Legislative Audit Commission  
and  
Mr. Joseph Samargia, Commissioner  
Page 3

Conclusions

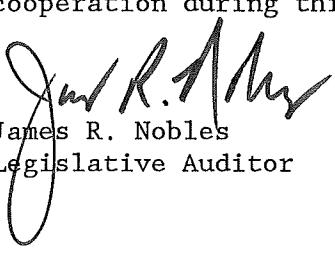
In our opinion, except for the issues addressed in Section II, recommendations 1-7, and except for the issues raised in our management letter dated February 25, 1987, recommendations 1-5, the Department of Jobs and Training's system of internal accounting control in effect on January 31, 1987, taken 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.

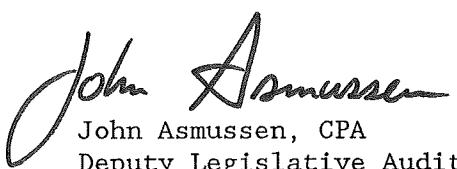
In our opinion, for the three years ended June 30, 1986, the Department of Jobs and Training properly recorded, in all material respects, its financial transactions on the Statewide Accounting System.

In our opinion, for the three years ended June 30, 1986, the Department of Jobs and Training administered its programs in compliance, in all material respects, with applicable finance-related laws and regulations.

The recommendations included in Section II of this audit report are presented to assist the department in improving accounting procedures and controls. We will be monitoring and reviewing the Department of Jobs and Training's progress on implementing these recommendations after the completion dates identified in the response to this report.

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

  
James R. Nobles  
Legislative Auditor

  
John Asmussen, CPA  
Deputy Legislative Auditor

April 30, 1987



DEPARTMENT OF JOBS AND TRAINING

TABLE OF CONTENTS

	<u>Page</u>
I. INTRODUCTION	1
II. CURRENT FINDINGS AND RECOMMENDATIONS	2
AGENCY RESPONSE	6

AUDIT PARTICIPATION

The following members of the Office of the Legislative Auditor participated in this audit:

John Asmussen, CPA	Deputy Legislative Auditor
Warren Bartz, CPA	Audit Manager
Tony Toscano	Auditor-in-Charge
Sonya Hill	Staff Auditor
Joan Haskin	Staff Auditor

EXIT CONFERENCE

The findings and recommendations in this report were discussed with the following staff of the Department of Jobs and Training on March 17, 1987:

Joseph Samargia	Commissioner
Fred Matson	Deputy Commissioner
Connie Braziel	Assistant Commissioner
Michael Gunderson	Assistant Commissioner
John Burns	Director, Administrative and Financial Management
John Stavros	Supervisor, Financial Services
Dean Sullivan	Director of Job Service and Unemployment Insurance Operations



DEPARTMENT OF JOBS AND TRAINING

I. INTRODUCTION

The Department of Economic Security became the Department of Jobs and Training (DJT) in October 1985. Joe Samargia has served as Commissioner since August 1985. The department is responsible for developing and supervising a rehabilitation, income support, and employment system. It meets its responsibility by administering six principal program components:

- Job Service - matches qualified job seekers with job openings listed by employers;
- Job Training Partnership Act (JTPA) - provides job training and employment for low income and unemployed persons;
- Rehabilitation Services - provides vocational training and support services to disabled persons to help them become employable and able to live independently;
- Unemployment Insurance (UI) - provides temporary income to persons who have involuntarily lost their jobs;
- Community Services - provide energy assistance, home weatherization, emergency food distribution, and other services to low income households; and
- Minnesota Employment and Economic Development (MEED)/Wage Subsidy - provides reimbursement to employers for a portion of the salary costs of qualified job seekers.

The agency delivers its services in more than 90 communities throughout the state. Activities of DJT are financed primarily through federal grants, General Fund appropriations, and unemployment taxes collected from employers. Fiscal year 1986 department expenditures were as follows:

	Unemployment Comp. Fund	Federal Fund	General Fund	Other Funds	TOTAL
Grants & Aids	\$354,673,000	\$137,611,078	\$38,990,548	\$ 795,743	\$532,070,369
Personal Services		59,864,999	4,602,965	38,652	64,506,616
Rents & Leases		3,549,669	391,230	10,012	3,950,911
Supplies & Equipment		2,467,107	74,319	79,993	2,621,419
Contractual Services		2,031,090	62,862	(23,381)	2,070,571
Travel & Subsistence		1,387,736	129,194	2,850	1,519,780
Redistributed Costs		1,393,797	27,034,263	1,601,163	30,029,223
Other Adminis- trative Costs	4,732,323	373,938	9,428,817	14,535,078	
TOTAL	\$354,673,000	\$213,037,799	\$71,659,319	\$11,933,849	\$651,303,967

DEPARTMENT OF JOBS AND TRAINING

II. CURRENT FINDINGS AND RECOMMENDATIONS

The filing of claimant certifications of eligibility for unemployment insurance benefits needs to be improved.

The Department of Jobs and Training is responsible for the determination and payment of unemployment insurance benefits to individuals. According to Minn. Stat. § 268.08, Subd. 1 and 8 MCAR § 4.3010 to be eligible for benefits, an individual has to register for work at an area employment office and continue to report to that office. The individual must show that they have been available for work and actively seeking work. To fulfill that requirement, the individual must complete a claimant certification of eligibility for unemployment insurance benefits form (certification) for each check they receive. This certifies that for the time period for which benefits are being claimed, the individual is entitled to receive unemployment compensation. The certifications are filed at the applicable area offices.

We tested the filing of certifications at several area offices and were not able to locate several certifications at four offices. However, we provided a list to the staff at these offices, and they were able to furnish us with some copies at a later date. The following table summarizes the final results of our testing.

<u>Area Office</u>	<u>Sample Size</u>	<u>Unlocated Certifications</u>	<u>Total Amount of Unsupported Payments</u>
Mankato	204	4	\$ 589
Faribault	179	15	\$3,236
Rochester	214	0	\$ -0-
Hibbing	206	3	\$1,020
Virginia	236	0	\$ -0-
Duluth	249	5	\$1,171
Minneapolis	81	0	\$ -0-

We realize that some forms can be misfiled with the large volume processed, but a workable filing system is necessary for documentation. The forms are especially important because they are the only evidence available to show that claimants are eligible for benefits.

RECOMMENDATION:

1. The central office staff should work with the individual field offices to develop a workable filing system for claimant certification of eligibility for unemployment insurance benefit forms.

Controls over the payroll imprest cash account are inadequate.

The Department of Jobs and Training (DJT) has a payroll imprest account with an authorized amount of \$5,000. The imprest cash account is to be used for employees when an individual who is entitled to a payroll warrant does not receive it.

DEPARTMENT OF JOBS AND TRAINING

We reviewed the disbursements made from the payroll imprest cash account and identified three areas of concern:

- Approval from the Department of Employee Relations, (DOER) is not being obtained before paying employees from the imprest cash account. Department of Finance (DOF) Operating Policy and Procedure 07:04:19 requires departments to obtain approval from DOER prior to paying an employee from imprest cash. The last approval on file at DJT is dated April 4, 1985.
- Payments totaling \$242.82 made to four employees have not been repaid. Only one of the employees still works for DJT. Arrangements have now been made to collect the \$91 owed by this employee. Because the other three no longer work for DJT, it has been difficult to collect the remaining \$151.82. An imprest cash audit reported dated March 24, 1986, prepared by the field audit section noted these uncollectible amounts and recommended that either further attempts be made to collect the amounts owed the fund, or the amounts should be written off. At this time, neither of these has been done. By continuing to carry these uncollectible amounts, the account cannot be reimbursed to its authorized amount.
- A repayment made to the account for \$172 was paid with a check that was later declared NSF. However, the bank never adjusted the account balance for the \$172. A review of the bank statements from the time the deposit was originally made in February 1985 until the present time does not show any adjustment for the NSF check; hence, the imprest cash account is over its authorized amount by \$172. The bank has no record of the transaction and does not plan to make an adjustment for \$172. According to DOF Procedure 06:06:09, an over and short account is to be established within the imprest cash fund to account for any overages and shortages. Any overages in the fund at the end of the fiscal year are to be deposited into the state treasury.

RECOMMENDATIONS:

2. Approval from the Department of Employee Relations should be obtained in all situations where the payroll imprest cash account is used, as required by DOF Procedure 07:04:19.
3. Additional attempts should be made to collect outstanding amounts totaling \$151.82 owed to the payroll imprest cash account, or these amounts should be submitted to the Executive Council for cancellation. All future payments from the payroll imprest cash account should be collected in the following pay period using central payroll procedures.
4. A cash over and short account should be established within the imprest cash account. Overages and shortages should be handled at year-end as required by DOF Operating Policy and Procedure 06:06:09.

DEPARTMENT OF JOBS AND TRAINING

Internal controls over imprest cash accounts at outstate job service and vocational rehabilitation offices need strengthening.

Many of the outstate DJT job service and vocational rehabilitation offices maintain imprest cash accounts for making minor payments. Internal controls over the imprest cash accounts at the outstate offices need improvement in two areas.

Periodic reconciliations to the authorized amount are not always being completed by somebody who does not maintain the account. Periodic reconciliations are necessary to ensure that all of the money in the imprest cash account can be accounted for. Good internal control requires that duties be adequately separated so that no one individual can make an error and prevent it from being detected. At a minimum in a small office, if the reconciliation is prepared by the same individual who maintains the account, a supervisor should review and approve the reconciliation.

In the Virginia Vocational Rehabilitation Office, there was an excessive number of authorized signatures for the imprest cash checking account. Two signatures are required on each check; however, eight different individuals are authorized to sign the checks, including individuals from the Grand Rapids, Hibbing, and International Falls offices. In order to maintain effective control over disbursements made from the Virginia imprest checking account, the number of authorized signatures must be limited to three or four individuals from the Virginia office.

**RECOMMENDATIONS:**

5. Periodic reconciliations of the imprest cash accounts should be completed or reviewed and signed by an employee independent of approving payments and writing checks on the imprest cash account.
6. The Virginia Vocational Rehabilitation Office should reduce the number of authorized signatures on the imprest checking account to three or four individuals from the Virginia office.

Controls over fixed assets at DJT need improvement.

DJT currently records fixed assets on the department's internal cost accounting system (SESA - State Employment Security Agency - System). As of June 30, 1986, the SESA system showed \$9.5 million of fixed assets. We tested fixed assets at four of the job service offices we visited (Mankato, Rochester, Hibbing, and Duluth). In total, we were not able to find 11 of 62 items or 17.7 percent. In addition, errors in the recording of tag numbers and location codes for the fixed assets were identified.

At the Rochester Job Service Office, although the number of computer terminals was correct, three of the tag numbers did not match those shown on the SESA report. At the Hibbing Job Service Office, some equipment was listed as assigned to the Hibbing office but actually was not located there. For example, the SESA report shows ten computer terminals for the

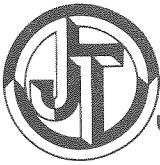
DEPARTMENT OF JOBS AND TRAINING

Hibbing office but it only has five. One of the remaining five was located at the DJT District Office and one at the Field Audit Office. We were unable to determine where the other three were located.

We have called attention to problems with fixed assets in our last two Statewide/Single Audits, as well. Without accurate fixed asset records, controls over the assets are weakened. DJT will be converting its current fixed asset records to the Fixed Asset Record Management System (FARMS) in the future. DJT personnel indicated that a complete physical inventory will be taken at the time of the conversion.

**RECOMMENDATION:**

7. DJT should ensure that fixed asset records are accurate and updated for any changes in their current system by taking a complete physical inventory and reconciling the counts to inventory records.



MINNESOTA DEPARTMENT OF  
**Jobs and Training**

Office of the Commissioner  
390 North Robert Street • St. Paul, MN 55101  
612/296-3711  
TTY 612/297-3944

April 30, 1987

Mr. James R. Nobles  
Legislative Auditor  
Veteran's Service Building  
St. Paul, MN 55155

Dear Mr. Nobles:

The following information is being provided in response to the Legislative Auditor's financial and compliance audit of the Department of Jobs and Training for the three years ended June 30, 1986:

### Recommendation #1:

The central office staff should work with the individual field offices to develop a workable filing system for claimant certification of eligibility for unemployment benefit forms.

Response: **Responsibility:** Dean Sullivan

As a minimum we will establish a system to batch the MSES-14's by day in each of the area offices.

### Recommendation #2:

Approval from the Department of Employee Relations should be obtained in all situations where the payroll imprest cash account is used, as required by DOE Procedure 07:04:19.

### Response:

Recommendation implemented.

### Recommendation #3:

Additional attempts should be made to collect outstanding amounts totaling \$151.82 owed to the payroll imprest cash account, or these amounts should be submitted to the Executive Council for cancellation. All future payments from the payroll imprest cash account should be collected in the following pay period using central payroll procedures.

Response: Responsibility: John Burns/John Stavros

A request is being made to write off the \$151.82. Central payroll procedures are being followed.

#### Recommendation #4:

A cash over and short account should be established within the imprest cash account. Overages and shortages should be handled at year-end as required by DOD Operating Policy and Procedure 06:06:09.

### Response:

Recommendation implemented.

#### Recommendation #5:

Periodical reconciliations of the imprest cash accounts should be completed or reviewed and signed by an employee independent of approving payments and writing checks on the imprest cash account.

Response: Responsibility: James Janssen  
Dean Sullivan  
John Burns

Procedures require imprest cash audit by the Unemployment Insurance Field Auditors. Annual notice will be sent to the managers to conform to Policy 209.065.

#### Recommendation #6:

The Virginia Vocational Rehabilitation Office should reduce the number of authorized signatures on the imprest checking account to three or four individuals from the Virginia Office.

Response: Responsibility: Mary Shortall

DJT agrees with this recommendation.

Recommendation #7:

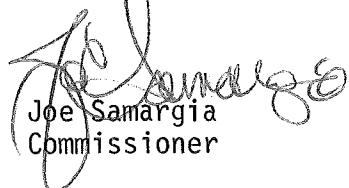
DJT should ensure that fixed asset records are accurate and updated for any changes in their current system by taking a complete physical inventory and reconciling the counts to inventory records.

Response: Responsibility: John Burns

DJT will take a physical inventory by July 1, 1987 and reconcile the counts to inventory records.

The above concludes the response of the Department of Jobs and Training as requested by you.

Sincerely,



Joe Samargia  
Commissioner

JS/JGB:pjk