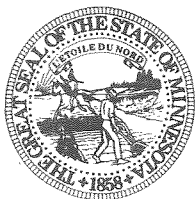


**DEPARTMENT OF JOBS AND TRAINING
MANAGEMENT LETTER
FISCAL YEAR 1987**

MARCH 1988

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

Mr. Joseph Samargia, Commissioner
Department of Jobs and Training
390 North Robert Street
St. Paul, Minnesota 55101

Dear Commissioner Samargia:

We have reviewed certain accounting procedures and controls for your department as part of our statewide audit of the State of Minnesota's fiscal year 1987 financial statements and federal programs. The scope of our work has been limited to:

- those aspects of your department which have material impact on any of the state's various funds and account groups shown on the financial statements;
- federal programs included in the Single Audit scope:
 - CFDA #10.568 Temporary Emergency Food Assistance
 - CFDA #13.789 Low Income Home Energy Assistance Block Grant
 - CFDA #13.790 Work Incentive
 - CFDA #13.792 Community Services Block Grant
 - CFDA #13.802 Social Security Disability Determination
 - CFDA #16.540 Juvenile Justice and Delinquency Prevention
 - CFDA #17.207 Employment Services
 - CFDA #17.225 Unemployment Insurance
 - CFDA #17.246 Dislocated Workers
 - CFDA #17.250 Job Training Partnership Act
 - CFDA #81.042 Weatherization Assistance for Low Income Persons
 - CFDA #84.126 Rehabilitation Services - Basic Support;

and

- the status of prior audit recommendations.

We emphasize that this has not been a complete financial and compliance audit of all programs within your department. The work conducted in your department is a part of our annual Statewide Financial and Federal Compliance Audit (Single Audit). The Single Audit coverage satisfies the federal government's financial and compliance audit requirements for all federal programs administered by your department in fiscal year 1987. The federal government is ultimately responsible for determining resolution of Single Audit recommendations. The appropriate federal program agency staff will contact your agency to review your efforts toward corrective actions for 1987 and prior years. They will also notify you of their final resolution.

This management letter contains both our findings developed during this audit and reiteration of our prior findings which have not yet been resolved. Prior audit findings repeated in this text are denoted under the caption "PRIOR FINDING NOT RESOLVED," or "PRIOR FINDING PARTIALLY RESOLVED." Attached to your management letter is a summary of the progress on implementing all audit recommendations developed during our financial audit of Minnesota's fiscal year 1986 financial statements.

The recommendations included in this letter are presented to assist you in resolving the audit findings and in improving accounting procedures and controls. Progress on resolving these findings will be reviewed during our audit next year.

1. PRIOR FINDING PARTIALLY RESOLVED. The Department of Jobs and Training (DJT) needs to improve cash management over its federal grants.

DJT received approximately \$203 million from several federal agencies to operate various programs and award grants to eligible recipients. The department has established a letter of credit with federal grantor agencies and receives money by periodic drawdowns. In previous management letters, we recommended that DJT improve its drawdown policies and procedures to comply with U.S. Treasury Circular 1075 (TC 1075), which provides the regulations governing cash management of federal grants.

TC 1075 states in part:

"Cash advances to a recipient organization shall be limited to the minimum amounts needed and shall be timed to be in accord only with the actual, immediate cash requirements of the recipient organization in carrying out the purpose of the approved program or project. The timing and amount of cash advances shall be as close as is administratively feasible to the actual disbursements by the recipient organization for direct program costs and the proportionate share of any allowable indirect costs."

DJT has modified its cost accounting system, the State Employment Security Agency (SESA) system, so that daily cash balances of the various programs are available. However, drawdowns have not always been based on immediate needs under a program by program basis. For example, the Community Service Block Grant (CSBG) program had a negative cash balance of \$299,957 on May 1, 1987. The deficit increased steadily during the month until at May 20, 1987, the negative cash balance was \$598,241, but no drawdowns for that program were made during that time period. During that same time period the Low Income Energy Assistance Program (LIEAP) maintained an average daily cash balance of approximately \$1.975 million, while expending approximately \$500,000 per day. DJT was able to temporarily pay expenditures of one program with the money of another, because federal grant money for each of the following programs is deposited into one account:

CFDA #10.568	Temporary Emergency Food Assistance
CFDA #13.789	Low Income Home Energy Assistance Block Grant
CFDA #13.790	Work Incentive
CFDA #13.792	Community Services Block Grant
CFDA #13.802	Social Security Disability Determination
CFDA #16.540	Juvenile Justice and Delinquency Prevention
CFDA #17.207	Employment Services
CFDA #17.225	Unemployment Insurance
CFDA #17.246	Dislocated Workers
CFDA #17.250	Job Training Partnership Act
CFDA #81.042	Weatherization Assistance for Low Income Persons
CFDA #84.126	Rehabilitation Services - Basic Support

TC 1075 also states:

"Cash advances made by primary recipient organizations to secondary recipient organizations shall conform substantially to the same standards of timing and amount as apply to cash advances by the Federal program agencies to primary recipient organizations."

During fiscal year 1987, subrecipients drew down funds from DJT on a monthly basis, rather than more frequently requesting cash for only immediate needs. In June of 1987, DJT developed a policy requiring subrecipients to draw no more than three days cash needs at any one time. DJT is now in the process of ensuring that all subgrants comply with this requirement.

RECOMMENDATIONS

- DJT should ensure that drawdowns of federal cash are based on the actual, immediate cash needs of each approved federal program so that money from one program is not temporarily used to pay the costs of other programs.
 - DJT should continue its efforts to ensure that payments to subrecipients are based on the actual, immediate cash needs of the subrecipients.
2. The Temporary Emergency Food Assistance Program (CFDA #10.568) staff need to monitor the emergency feeding organizations and distribution sites in accordance with the federal requirements.

The Temporary Emergency Food Assistance Program (CFDA #10.568) is responsible for providing food assistance to people in economic need in Minnesota. Expenditures including the value of distributed food commodities during fiscal year 1987 totaled \$15,422,271. DJT contracts with 36 emergency feeding organizations which are responsible for distributing the food commodities. The organizations oversee the distribution of the commodities at 696 sites across the state. In accordance with Federal Regulation 7 CFR Part 251.9(f), Minnesota's Plan of Operation for federal fiscal

year 1987 states that annual reviews of all organizations and of 50 distribution sites should be completed. This monitoring encompasses the following: eligibility and distribution procedures, issue rates, record-keeping, reporting, receipting methods, and warehousing and inventory controls. During fiscal year 1987, only 13 of the 36 organizations and 40 distribution sites had been monitored.

RECOMMENDATION

- In order to be in compliance with federal regulations, the Department of Jobs and Training needs to establish and follow a schedule whereby the required number of reviews for the Temporary Emergency Food Assistance Program are completed each year.

3. Certificates of compliance are not on file for all Department of Jobs and Training (DJT) contractors.

Certificates of compliance are issued by the Department of Human Rights to vendors who intend to contract with the State of Minnesota. In order to obtain a certificate, a vendor must submit an affirmative action plan that meets specific civil rights requirements. According to Minn. Stat. Section 363.073:

"No department or agency of the state shall accept any bid or proposal for a contract or execute any contract for goods or services in excess of \$50,000 with any business having more than 20 full-time employees . . . unless the firm or business has an affirmative action plan . . . approved by the commissioner of human rights."

The Disability Determination Services Division (DDS) of DJT contracts with various medical service providers in carrying out their responsibilities under the Social Security Disability Determination Services Program (CFDA #13.802). One contract exceeded \$50,000, but the contractor did not have an approved affirmative action plan on file at the Department of Human Rights.

The Department of Human Rights prepares a listing of contractors with approved affirmative action plans on file. Although DJT does receive a copy of the listing, DDS personnel were unaware of this listing and thought that they were complying by requiring the contractor to certify that they had an approved plan on file.

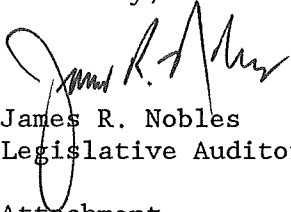
RECOMMENDATION

- DJT should inform all divisions to verify that certificates of compliance are on file for all contractors doing at least \$50,000 worth of business with the department.

Mr. Joseph Samargia, Commissioner
Department of Jobs and Training
Page 5

Thank you for the cooperation extended to our staff during this audit.

Sincerely,



James R. Nobles
Legislative Auditor

Attachment



John Asmussen, CPA
Deputy Legislative Auditor

March 3, 1988

DEPARTMENT OF JOBS AND TRAINING

STATUS OF PRIOR AUDIT RECOMMENDATIONS
AND
PROGRESS TOWARD IMPLEMENTATION

The Department of Jobs and Training (DJT) needs to improve its federal grant cash management policies.

1. DJT should ensure that drawdowns of federal cash are based on the actual, immediate cash needs of each approved federal program so that money from one program is not temporarily used to pay the costs of other programs.
2. DJT should ensure that payments to subrecipients are based on the actual, immediate cash needs of the subrecipients.

RECOMMENDATION PARTIALLY IMPLEMENTED. Although DJT has updated its cost accounting system to provide daily cash balances by federal program, drawdowns are still not always based on the immediate cash needs of each program. See current finding #1.

Unidentified receipts are not deposited promptly.

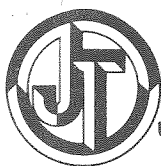
3. To ensure adequate control, DJT should deposit all receipts when the cumulative total reaches or exceeds \$250.

RECOMMENDATION IMPLEMENTED. DJT has accelerated the process of identifying receipts to ensure that all receipts are deposited in a timely manner.

Inventory procedures at the Department of Jobs and Training need improvement.

4. In order to maintain adequate control over fixed assets, DJT should follow its policy requiring an annual physical inventory of nonexpendable property and reconcile the counts to inventory records.
5. DJT should ensure that equipment purchases are tagged and entered onto the inventory system on a timely basis.

RECOMMENDATIONS IMPLEMENTED. Although a physical inventory was not taken during fiscal year 1987, DJT began the process of taking a physical inventory in July 1987. As of February 3, 1988, the inventory had been completed and appropriate adjustments made to the records. DJT has also now instituted procedures whereby assets are tagged when received.



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

March 3, 1988

Mr. James R. Nobles
Legislative Auditor
Office of the Legislative Auditor
Veterans Service Building
St. Paul, Minnesota 55155

Dear Mr. Nobles: *JS*

Enclosed is the response to your draft letter of audit work for the year ended June 30, 1987.

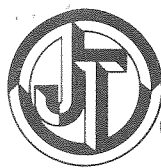
If you have any questions, please contact John Burns, Director, Administrative and Financial Management at 296-3965.

Sincerely,

Joe Samargia
Joe Samargia
Commissioner

JS/JB:1ak

Attachment



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

Recommendation #1:

The Department of Jobs and Training (DJT) should ensure that drawdowns of federal cash are based on the actual, immediate cash needs of each approved federal program so that money from one program is not temporarily used to pay the costs of other programs.

DJT should continue its efforts to ensure that payments to subrecipients are based on the actual immediate cash needs of the subrecipients.

Response:

Since the end of the audit period, DJT has continually improved our cash management. Forecasting techniques and drawdown schedules have greatly improved. Also, the incumbent cash manager retired and a new staff member will be recruited in March, 1988.

Our subgrant drawdown policy is being emphasized to our subrecipients and will be included in the monitoring guides for the various programs.

Recommendation #2:

The Temporary Emergency Food Assistance Program (CFDA #10.568) staff need to monitor the emergency feeding and distribution sites in accordance with the federal requirements.

Response:

The Economic Opportunity Office is presently in the process of reorganizing the monitoring teams, which includes increasing staff capacities. Monitoring teams will implement a schedule whereby the required number of reviews for the Temporary Emergency Food Assistance Program (TEFAP) will be completed each year.

Recommendation #3:

DJT should inform all divisions to verify that certificates of compliance are on file for all contractors doing at least \$50,000.00 worth of business with the Department.

Response:

DDS will be provided listings of contractors with approved affirmative action plans.

For your information, the following are the correct CFDA numbers:

13.818 Low Income Home Energy Assistance Block Grant
13.665 Community Services Block Grant