

**DEPARTMENT OF JOBS AND TRAINING  
FINANCIAL AUDIT  
FOR THE YEAR ENDED JUNE 30, 1989**

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**MARCH 1990**

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

**90-13**



**DEPARTMENT OF JOBS AND TRAINING  
FINANCIAL AUDIT  
FOR THE YEAR ENDED JUNE 30, 1989**

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# DEPARTMENT OF JOBS AND TRAINING

## FINANCIAL AUDIT FOR THE YEAR ENDED JUNE 30, 1989

Public Release Date: March 23, 1990

No. 90-13

### OBJECTIVES:

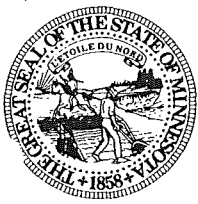
- EVALUATE INTERNAL CONTROL STRUCTURE: policies, procedures, payroll, and administrative disbursements associated with the following federal programs:
  - Food Distribution.
  - Low Income Home Energy Assistance Block
  - Social Security - Disability Determination
  - Emergency Shelter
  - Employment Services
  - Unemployment Insurance
  - Employment and Training Assistance - Dislocated Workers
  - Job Training Partnership Act
  - Weatherization Assistance
  - Rehabilitation Services Basic Support
- TEST COMPLIANCE WITH CERTAIN FINANCE-RELATED LEGAL PROVISIONS.

### CONCLUSIONS:

- Transfers from the unemployment insurance clearing account need to be more timely.
- The department is not reconciling unemployment insurance contributions in a timely manner.

Contact the Financial Audit Division for additional information.  
(612) 296-1730





STATE OF MINNESOTA

**OFFICE OF THE LEGISLATIVE AUDITOR**

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

JAMES R. NOBLES, LEGISLATIVE AUDITOR

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Senator John E. Brandl, Chairman  
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. Joseph Samargia, Commissioner  
Department of Jobs and Training

Audit Scope

We have conducted a financial related audit of the Department of Jobs and Training as of and for the year ended June 30, 1989. Our audit was limited to only that portion of the State of Minnesota financial activities attributable to the transactions of the Department of Jobs and Training, as discussed in the Introduction. We have also made a study and evaluation of the internal control structure of the Department of Jobs and Training in effect at June 30, 1989.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial activities attributable to the transaction of the Department of Jobs and Training are free of material misstatements.

As part of our study and evaluation of the internal control structure, we performed tests of the Department of Jobs and Training's compliance with certain provisions of laws, regulations, contracts, and grants. However, our objective was not to provide an opinion on overall compliance with such provisions.

Management Responsibilities

The management of the Department of Jobs and Training is responsible for establishing and maintaining an internal control structure. This responsibility includes compliance with applicable laws, regulations, contracts, and grants. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that:

- assets are safeguarded against loss from unauthorized use or disposition;
- transactions are executed in accordance with applicable legal and regulatory provisions, as well as management's authorization; and
- transactions are recorded properly on the statewide accounting system in accordance with Department of Finance policies and procedures.

Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

#### Internal Control Structure

For purposes of this report, we have classified the significant internal control structure policies and procedures associated with the following federal programs, including payroll and administrative disbursements:

- Food Distribution (CFDA #10.550)
- Low Income Home Energy Assistance Block (CFDA #13.789)
- Social Security - Disability Insurance (CFDA #13.802)
- Emergency Shelter (CFDA #14.231)
- Employment Services (CFDA #17.207)
- Unemployment Insurance (CFDA #17.225)
- Employment and Training Assistance - Dislocated Workers (CFDA #17.246)
- Job Training Partnership Act (CFDA #17.250)
- Weatherization Assistance (CFDA #81.042)
- Rehabilitation Services Basic Support (CFDA #84.126)

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

#### Conclusions

Our study and evaluation disclosed the condition discussed in finding 2 involving the internal control structure of the Department of Jobs and Training. We consider this condition to be a reportable condition under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation



Senator John E. Brandl, Chairman  
Members of the Legislative Audit Commission  
Mr. Joseph Samargia, Commissioner  
Page 3

of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data.

A material weakness is a reportable condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial activities being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We believe the reportable condition described in finding 2 is not a material weaknesses.

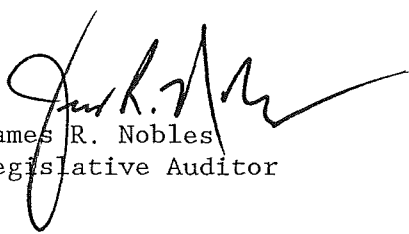
We also noted other matters involving the internal control structure and its operation that we reported to the management of the Department of Jobs and Training at the exit conference held on February 22, 1990.

Material instances of noncompliance are failures to follow requirements, or violations of prohibitions, contained in statutes, regulations, contracts or grants that cause us to conclude that the aggregation of the misstatements resulting from those failures or violations is material to the financial activities being audited. The results of our tests of compliance disclosed the instances of noncompliance noted in finding 1.

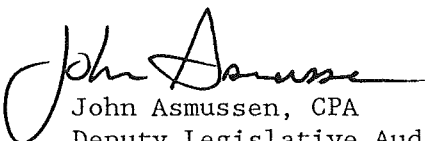
Except as described above, the results of our tests indicated that, with respect to the items tested, the Department of Jobs and Training complied, in all material respects, with the provisions referred to in the audit scope paragraphs. With respect to items not tested, nothing came to our attention that caused us to believe that the Department of Jobs and Training had not complied, in all material respects, with those provisions.

This report is intended for the information of the Legislative Audit Commission and management of the Department of Jobs and Training. This restriction is not intended to limit the distribution of this report, which was released as a public document on March 23, 1990.

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



James R. Nobles  
Legislative Auditor



John Asmussen, CPA  
Deputy Legislative Auditor

END OF FIELDWORK: February 12, 1990

REPORT SIGNED ON: March 14, 1990



## DEPARTMENT OF JOBS AND TRAINING

### TABLE OF CONTENTS

	<u>Page</u>
I. INTRODUCTION	1
II. CURRENT FINDINGS AND RECOMMENDATIONS	2
AGENCY RESPONSE	5

### AUDIT PARTICIPATION

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

John Asmussen, CPA	Deputy Legislative Auditor
Warren Bartz, CPA	Audit Manager
Ken Vandermeer, CPA	Auditor-in-Charge
Marla Conroy, CPA	Auditor
Sonya Hill	Auditor
Dave Poliseno	Auditor

### EXIT CONFERENCE

The findings and recommendations in this report were discussed with the following staff of the Department of Jobs and Training on February 22, 1990:

Joseph Samargia	Commissioner
Laurence Simmons	Assistant Commissioner, Administrative Technical Services Division
John Burns	Director, Administrative and Financial Management Unit
John Stavros	Administrative and Financial Management Unit
Don Murphy	District Director, Jobs, Opportunities and Insurance Division
Richard A. Yurek	Director, Tax Office
John Thomas	Tax Accounting Supervisor, Unemployment Insurance Unit



# DEPARTMENT OF JOBS AND TRAINING

## I. INTRODUCTION

The Department of Jobs and Training is responsible for providing an employment, rehabilitation, and income support system to increase the economic independence of Minnesotans. It meets its responsibility through the operation of six major programs:

- Job Service - attempts to place eligible job applicants in suitable job openings provided employers;
- Job Training Partnership Act - provides job training and employment opportunities for low income and unemployed persons;
- Rehabilitation Services - provides various services to help disabled persons become employable and able to live independently;
- Unemployment Insurance - on a temporary basis provides income for those who become involuntarily unemployed;
- Community Service Programs - provides a variety of services to meet various needs such as energy assistance and emergency food distribution; and
- Minnesota Employment and Economic Development Program - provides employers with reimbursement for a portion of the salary costs of qualified job applicants.

Joseph Samargia has served as commissioner since August 1985. The activities of the department are financed primarily with federal grants, General Fund appropriations, and the collection of unemployment taxes from employers. Fiscal year 1989 expenditures for the department were as follows:

	<u>Unemployment Comp. Fund</u>	<u>Employment Services Fund</u>	<u>General Fund</u>	<u>Other Funds</u>	<u>Total</u>
Grants & Aids	\$312,599,819	\$105,890,724	\$29,691,687	\$7,202,144	\$455,384,374
Personnel					
Services		63,788,468	4,957,575	385,294	69,131,337
Rents & Leases		4,222,592	233,740	58,780	4,515,112
Supplies & Equipment		5,730,320	203,189	146,901	6,080,410
Contractual					
Services		7,842,044	248,667	14,090	8,104,801
Travel & Subsistence		1,588,010	146,848	15,426	1,750,284
Other Adminis- trative Costs		7,379,672	257,659	268,869	7,906,200
Total	<u>\$312,599,819</u>	<u>\$196,441,830</u>	<u>\$35,739,365</u>	<u>\$8,091,504</u>	<u>\$552,872,518</u>

Source: Statewide Accounting System - Managers Financial Report and the State Employment Security Agency (SESA) Accounting System as of September 2, 1989.

## DEPARTMENT OF JOBS AND TRAINING

### II. CURRENT FINDINGS AND RECOMMENDATIONS

1. Transfers from the unemployment insurance clearing account need to be timely.

Daily transfers from the department clearing account to the federal Unemployment Trust Fund were not made for one month of the audit period. Untimely transfers resulted in undercollateralizing the account and in excessive "compensating balances" at the bank.

The department collects unemployment insurance tax payments from employers in Minnesota and deposits these payments into the unemployment insurance clearing account. The department transfers deposits, which totaled over \$381 million in fiscal year 1989, to a federal trust fund. Federal regulations require these transfers to take place within three days. From April 25, 1989 through May 23, 1989, the clearing account balance increased from \$15 million to \$137.6 million. During this time, the collateral amount was only \$13.3 million; therefore, the account was undercollateralized by over \$124.1 million. The department is responsible for monitoring the collateral level required to secure the account. When the account has insufficient collateral, the department is at risk for all amounts over the collateral amount.

The accounting staff explained to us that they used a different method in response to a study of bank charges. The department withheld transfers during this period to accrue compensating balances for bank service charges for one year. Monthly service charges <sup>are</sup> reduced by the compensating balance in lieu of paying interest on the money in the clearing account. The department accrued a compensating balance of approximately two years of service charges due to an error in their estimate. Although clearing account deposits do not earn interest, transfers to the trust fund do earn interest. Since the trust fund is a federal account, delinquent transfers that accrue compensating balances also result in a loss of interest earnings to the federal government.

#### RECOMMENDATIONS

- The department should make transfers to the Unemployment Trust Fund on a timely basis.

2. Jobs and Training is not reconciling unemployment insurance contributions in a timely manner.

The department is nearly two years behind in reconciling unemployment contributions to the amounts posted to the employer accounts. The department needs to perform the reconciliations on a monthly or quarterly basis. The last reconciliation completed was for the quarter ending March 1988. The reconciliation for the quarter ending June 1988 is in the process of completion.

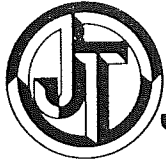
## DEPARTMENT OF JOBS AND TRAINING

The Department of Jobs and Training collected unemployment taxes totaling \$381,000,000 during fiscal year 1989. Employers submit remittances with the quarterly tax return. The majority of the tax return processing is done through a lock box operation at a St. Paul bank. The bank deposits the cash and enters the tax return information onto magnetic tape. The bank sends the actual returns plus the magnetic tape to the department for additional processing. The department updates the employer accounts using the magnetic tape and the tax returns.

Timely reconciliations ensure the proper accounting of funds and the resolution of any discrepancies. The reconciliation provides an internal verification that cash deposited ties to the amount posted to the employer accounts. Various errors or adjustments can occur and go undetected without timely reconciliations. Reconciliations provide an opportunity to reexamine and investigate any unusual or unique transactions or balances.

### RECOMMENDATION

- The department should reconcile unemployment insurance contributions promptly, either on a monthly or quarterly basis.



MINNESOTA DEPARTMENT OF  
**Jobs and Training**

Office of the Commissioner  
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March 7, 1990

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

Dear Mr. Nobles:

The following information is offered in response to a revised draft audit report dated February 27, 1990, received from your office. As stated in your letter, please include this information in your final report.

Recommendation 1.

Transfers from the unemployment insurance clearing account need to be timely.

We agree with the recommendation. For the period November 27, 1989, to date our transfers have been within one day. Our current policy is to transfer funds within one day.

Responsible Person: John Stavros

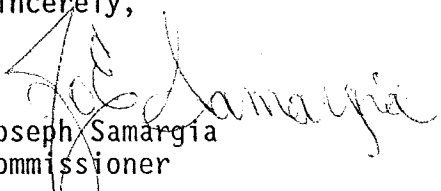
Recommendation 2.

Jobs and Training is not reconciling UI contributions in a timely manner.

The reconciliation of clearing account deposits with employer tax accounts must be a quarterly process. The Tax Accounting Section has not been able to devote sufficient resources to the reconciliation of deposits with employer accounts, due to shortages of staff. Staff has been diverted from other areas, and the reconciliation process has commenced.

Responsible Person: R. Yurek

Sincerely,

  
Joseph Samargia  
Commissioner

JS/JB:llj