

**DEPARTMENT OF LABOR AND INDUSTRY  
FINANCIAL AUDIT  
FOR THE YEAR ENDED JUNE 30, 1991**

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**FEBRUARY 1992**

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Financial Audit Division  
Office of the Legislative Auditor  
State of Minnesota



# **DEPARTMENT OF LABOR AND INDUSTRY**

## **FINANCIAL AUDIT FOR THE YEAR ENDED JUNE 30, 1991**

Public Release Date: February 7, 1992

No. 92-10

### **OBJECTIVES:**

- EVALUATE INTERNAL CONTROL STRUCTURE: Special Workers' Compensation Fund revenues and expenditures, and employee payroll.
- TEST COMPLIANCE WITH CERTAIN FINANCE-RELATED LEGAL PROVISIONS.

### **CONCLUSIONS:**

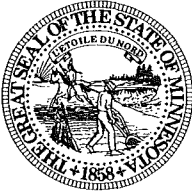
We found the internal control structure to be effective.

We found that the department had complied with finance-related legal provisions, except for one area:

- The department did not have contracts for some consultant and technical services before work was begun.

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





STATE OF MINNESOTA

**OFFICE OF THE LEGISLATIVE AUDITOR**

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JAMES R. NOBLES, LEGISLATIVE AUDITOR

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Representative Ann Rest, Chair  
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. John Lennes, Commissioner  
Minnesota Department of Labor and Industry

## **Audit Scope**

We have conducted a financial related audit of the Minnesota Department of Labor and Industry for the year ended June 30, 1991. Our audit was limited to only that portion of the State of Minnesota financial activities attributable to the Minnesota Department of Labor and Industry, as discussed in the Introduction. We have also made a study and evaluation of the internal control structure of the Minnesota Department of Labor and Industry in effect as of June 30, 1991.

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 transactions of the Minnesota Department of Labor and Industry are free of material misstatements.

As part of our study and evaluation of the internal control structure, we performed tests of the Minnesota Department of Labor and Industry'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 Minnesota Department of Labor and Industry 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 in the following categories:

- Special Workers' Compensation Fund revenues and expenditures; and
- employee payroll.

For the internal control structure categories listed, 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**

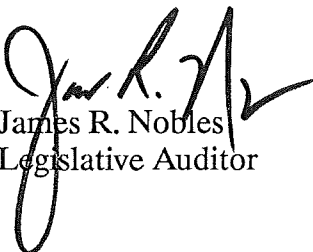
In our opinion, the internal control structure of Department of Labor and Industry in effect at June 30, 1991, taken as a whole, was sufficient to meet the objectives stated above insofar as those objectives pertain to the prevention or detection of errors or irregularities in amounts that would be material in relation to the financial transactions of the Department of Labor and Industry.

The results of our tests indicate, except for the issues discussed in finding 1, with respect to the items tested, the Department of Labor and Industry 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 Labor and Industry had not complied, in all material respects, with those provisions.

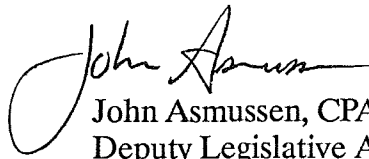
Representative Ann Rest, Chair  
Members of the Legislative Audit Commission  
Mr. John Lennes, Commissioner  
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This report is intended for the information of the Legislative Audit Commission and management of Department of Labor and Industry. This restriction is not intended to limit the distribution of this report, which was released as a public document on February 7, 1992.

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



James R. Nobles  
Legislative Auditor



John Asmussen, CPA  
Deputy Legislative Auditor

End of Fieldwork: November 20, 1991

Report Signed On: January 31, 1992





## 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
Warren Bartz, CPA	Audit Manager
Mary Annala, CPA	Auditor-in-Charge
Amy Jorgenson	Senior Auditor

### Exit Conference

The findings and recommendations in this report were discussed with the following staff of the Minnesota Department of Labor and Industry on December 9, 1991:

John Lennes	Commissioner
Leo Eide	Assistant Commissioner, Workers' Compensation Division
Anina Bearrond	Accounting Director



## Department of Labor and Industry

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### Introduction

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The Department of Labor and Industry is primarily a regulatory agency concerned with protecting the rights of working people in Minnesota. The department has three main divisions: Workers' Compensation, Regulation and Enforcement, and Administrative Services. Other divisions and sections provide 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. John Lennes was appointed commissioner effective January 31, 1991.

The Department of Labor and Industry is governed generally by Minn. Stat. Sections 175 to 178, 181 to 184 and 326, which establish the general purposes for its financial transactions. Specifically, Minn. Stat. Section 176 provides legal provisions governing the workers' compensation laws. Minn. Stat. Section 182 establishes the Occupational Safety and Health (OSHA) Program, which is administered through the department. The department received federal funding of \$2.8 million for the OSHA Program in fiscal year 1991.

Administrative costs of the department are financed primarily through General Fund appropriations and federal grants. Fiscal year 1991 expenditures of the department totalled \$132,322,654, as shown below:

	<u>General Fund</u>	<u>Federal Fund</u>	<u>Special Workers' Compensation Fund</u>	<u>Other Funds</u>
Payroll	\$4,000,267	\$1,457,913	\$ 7,730,210	\$138,555
Workers' Compensation				
Claims	0	0	113,628,755	0
Other	<u>1,313,630</u>	<u>1,361,823</u>	<u>10,267,115</u>	<u>154,596</u>
Total	<u>\$5,313,897</u>	<u>\$2,819,736</u>	<u>\$123,895,870</u>	<u>\$293,151</u>

In addition, the Department of Labor and Industry collected assessment and investment revenue of approximately \$126.5 million for the Special Workers' Compensation Fund during fiscal year 1991.

Source: Statewide Accounting System, Managers' Financial Report as of September 3, 1991, and Estimated/Actual Receipts Report as of August 31, 1991.

## Department of Labor and Industry

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### Current Finding and Recommendation

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1. **The Department did not have contracts for some consultant and technical services before work was begun.**

Two vendors provided workers' compensation claims administration and medical case management services for the Department of Labor and Industry without a valid state contract. The two vendors received payments totaling \$247,050 for services provided during fiscal year 1991. The Workers' Compensation Division bypassed one state contracting process by miscoding the payments in the Statewide Accounting System. As a result, the department's accounting section was unaware that a contract should have been in place for the payments. Minn. Stat. Section 16B.17 requires contracts for consultant and technical services.

The department paid the vendors an additional \$32,842 during fiscal year 1992 without a contract. The department advertised for bids in the *State Register*, and selected which vendor should receive the contract. It is currently negotiating a contract acceptable to the vendor and the Department of Finance.

#### *Recommendation*

- *The department should negotiate contracts for consultant and technical services before accepting service from vendors or making payments to vendors.*



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January 28, 1992

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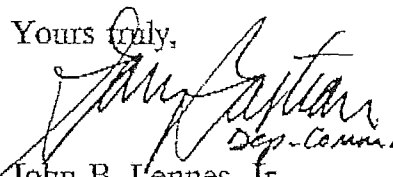
Dear Mr. Nobles:

This is in response to your January 14, 1992 letter requesting comments on your report of the December 9, 1991 exit interview at the Department of Labor and Industry.

The Special Compensation Fund has implemented new procedures to monitor all services and products provided to the Fund by outside vendors. These procedures include written verification by the Special Compensation Fund Director that any new category of charges has been approved by the Department's Accounting Director for the accounting code proposed by Fund Accounting. In addition, an internal checklist procedure is being established that will verify a completely executed contract before services are provided. The entire system will be fully implemented by March 1, 1992.

The contact person is Leo Eide, Assistant Commissioner, Workers' Compensation Division at 296-6490.

Yours truly,

  
Dep. Comm. for  
John B. Lennes, Jr.  
Commissioner

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