

**DEPARTMENT OF JOBS AND TRAINING
FINANCIAL AUDIT
FOR THE YEAR ENDED JUNE 30, 1991**

APRIL 1992

Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

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Public Release Date: April 24, 1992

No. 92-25

OBJECTIVES:

- **EVALUATE INTERNAL CONTROL STRUCTURE:** federal programs: food distribution, low income home energy assistance block, community services block, social security - disability insurance, employment services, unemployment insurance, job training partnership act, weatherization assistance, and rehabilitation services basic support.
- **TEST COMPLIANCE WITH CERTAIN FINANCE-RELATED LEGAL PROVISIONS.**

CONCLUSIONS:

We found three areas where the internal control structure needed improvement:

- Unemployment insurance continued claims processing.
- Logon identifications for accessing computer systems.
- Lack of a written contract for the unemployment insurance benefit bank account.

We found two areas where the department had not complied with finance-related legal provisions:

- Some claimants were paid incorrect unemployment insurance benefits.
- The department did not require the bank to pledge sufficient collateral for the benefit bank account.

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



STATE OF MINNESOTA

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JAMES R. NOBLES, LEGISLATIVE AUDITOR

Representative Ann Rest, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Ms. R. Jane Brown, 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, 1991. 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, 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 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)
- Employment Services (CFDA #17.207)
- Unemployment Insurance (CFDA #17.225)
- Job Training Partnership Act (CFDA #17.250)
- Weatherization Assistance (CFDA #81.042)
- Rehabilitation Services Basic Support (CFDA #84.126)
- Low Income Home Energy Assistance Block (CFDA #93.028)
- Community Services Block Grant (CFDA #93.031)
- Social Security - Disability Insurance (CFDA #93.802)

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 conditions discussed in findings 1,2 and 3 involving the internal control structure of the Department of Jobs and Training. We consider these conditions to be reportable conditions 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 of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data.

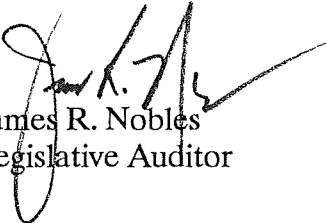
A material weakness is a reportable condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial activities being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We do not believe the reportable conditions described in findings 1,2 and 3 are 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 26, 1992.

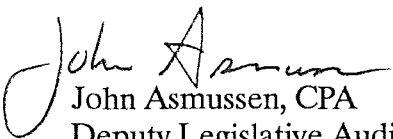
The results of our tests indicated that, except for the issues discussed in findings 1 and 3, with respect to the items tested, the Department of Jobs and Training complied, in all material respects, with the provisions referred to in the audit scope paragraphs. With respect to items not tested, nothing 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 April 24, 1992.

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 10, 1992

Report Signed On: April 20, 1992

Department of Jobs and Training

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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
Ken Vandermeer, CPA	Auditor-in-Charge
Chris Buse, CPA	Auditor
Mary G. L. Jacobson, CPA	Auditor
Mark Johnson	Auditor
Dave Poliseno, CPA	Auditor
Christina Weiss	Auditor
John Wicklund, CPA	Auditor
Dale Ogren	Intern

Exit Conference

The findings and recommendations in this report were discussed with the following staff of the Department of Jobs and Training on February 26, 1992:

R. Jane Brown	Commissioner
Earl R. Wilson	Deputy Commissioner
Gary Sorenson	Assistant Commissioner, Job Service/Unemployment Insurance
Byron Zuidema	Acting Assistant Commissioner, Community Based Services
John Stavros	Director, Financial Services
Beverly Amos	Administrative Director, Financial Services
John Wiring	Director, Data Processing

Department of Jobs and Training

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 operates six major programs:

- Job Service - attempts to place eligible applicants in suitable job openings;
- 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;
- 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.

R. Jane Brown was appointed commissioner effective February 8, 1991.

The activities of the department are financed primarily with federal grants, General Fund appropriations, and the collection of unemployment taxes from employers. Fiscal year 1991 expenditures for the department were as follows:

Food Distribution (CFDA #10.550)	\$ 3,788,752
Employment Services (CFDA #17.207)	11,731,213
Unemployment Insurance (CFDA #17.225)	445,292,661
Job Training Partnership Act (CFDA #17.250)	27,692,031
Weatherization Assistance (CFDA #81.042)	12,562,613
Rehabilitation Services Basic Support (CFDA #84.126)	35,116,028
Low Income Home Energy Assistance Block (CFDA #93.028)	57,390,019
Community Services Block Grant (CFDA 93.031)	10,591,015
Social Security - Disability Insurance (CFDA #93.802)	9,324,200
Other Programs	<u>6,173,824</u>
Total Expenditures	<u>\$619,662,356</u>

Source: Statewide Accounting System Managers Financial Report as of September 3, 1991, the Unemployment Insurance Fund Financial Schedules, and the Single Audit Financial Schedules based on the State Employment and Security Agency (SESA) System.

Current Findings and Recommendations

1. PRIOR FINDING NOT RESOLVED: Internal controls over unemployment insurance claims processing need improvement.

Internal controls over unemployment insurance benefits are weak because area offices process payments inaccurately. In addition, area office personnel cannot locate many certification reports to support the payments they authorized. The Department of Jobs and Training pays most unemployment insurance claimants for two week claim periods. Claimants submit a Certification for Unemployment Benefits after each claim period attesting that they were able, available, and actively seeking work. Claimants also use the certification to report any earnings during the claim period. Area office employees are responsible for reviewing the certifications and verifying that claimants are complying with work search requirements. Area offices then enter the certifications in the benefit payment system, which generates payments and sends reporting forms for the next claim period.

We reviewed 93 claimants paid unemployment insurance benefits during fiscal year 1991 and found the following certification processing weaknesses:

- An overpayment of \$747 occurred when one individual received payment for three weeks certified as unable to work. Unemployment insurance benefits are only available to claimants who are able, available, and actively seeking work.
- An overpayment of \$650 occurred on a backdated claim. The area office did not compare the resulting changes in the base period wages. The base period wages affect the weekly benefit payments calculation.
- An overpayment of \$178 occurred when an individual did not document the military pension amount and type. The area office should have investigated the pension amount and type and required documentation from the individual to support the payment.
- Part-time wages omitted on two claims and one rounding error resulted in overpayments of \$169.
- Earnings entered incorrectly (keypunch error) on one occasion resulted in a \$40 underpayment.

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- Wage detail omitted from one employer on the initial claim resulted in a \$52 underpayment. The recipient is responsible for identifying all employer wage sources. The area office is responsible for verifying the information through a terminal inquiry. However, the employer was delinquent in reporting the recipients wages, and the department does not have an edit in place to identify a match with delinquent wage detail and benefit payments.
- Area office employees were unable to locate 6 of 156, or 4 percent, of the certification reports requested. Certifications reports are the primary documentation supporting unemployment insurance benefit payments. Without these reports, we were unable to verify that \$2,728 of benefits paid to three claimants were accurate and in compliance with legal requirements.

The department must take immediate action to correct these certification processing weaknesses. We included a similar problem in last year's report. However, we believe that the problem has grown during this year. Invalid or incorrectly entered certification reports result in inaccurate payments to claimants. Inaccurate benefit payments charged to employers' experience ratings lead to misstated tax rates.

Recommendations

- *The department should collect the overpayments improperly paid to the claimants, pay underpaid claimants for improperly reduced benefits, and adjust the employers' experience ratings accordingly.*
- *The department should inform area offices of the requirement to document all certification reports.*
- *The department should investigate alternate controls over incorrect benefit calculations resulting from delinquent employer wage reporting.*

2. The Department of Jobs and Training does not properly suspend unused logon identifications.

The security unit of the Data Processing Division does not suspend logon identifications (logon IDs) that have been inactive for more than 90 days or never used. The department uses the Access Control Facility 2 (ACF2) security software package to limit computer system access to authorized employees for appropriate uses. The security officer issues the logon IDs to authorized users to limit their access to the system. The security officer updates the logon IDs and clearances at the request of the users' supervisors.

The security officer issues the logon IDs to permit the users access to the system to perform their job while ensuring system security. ACF2 standards recommend that security officers

Department of Jobs and Training

suspend logon IDs after 90 days of inactivity. We found eight logon IDs that had over 90 days of inactivity. The suspension of unused logon IDs reduces the risk that unauthorized access will not be detected. The 90 day suspension criteria helps ensure that only employees needing access to the computer system to complete their duties have clearance.

The security officer clears new operators by issuing them a logon ID and a temporary password. The security system forces users to change the password when they first log on. We reviewed the security records through on-line access and observed instances where three new operators had not accessed the system. The department's security policy requires users to sign on to the system immediately after receiving clearance. ACF2 standards recommend that security officers suspend new operators who have not accessed the system within ten days. The suspension reduces the risk that unauthorized users obtain these logon IDs and perform functions that are unauthorized.

Recommendations

- *The department's security officer should suspend logon IDs that are inactive for more than 90 days.*
- *The department's security officer should suspend newly issued logon IDs that remain unused within ten days.*

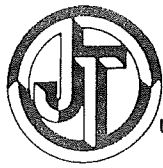
3. Controls over the unemployment insurance benefit account need improvement.

The Department of Jobs and Training pays unemployment insurance benefit payments from an uncollateralized private bank account and does not have a contract with the bank that maintains the account. The department maintains control of the account to pay benefit payments to recipients of unemployment insurance. The account had total receipts in fiscal year 1991 of approximately \$413 million, with an average monthly balance of \$1 - 2 million. The department disbursed funds typically within two to three days according to the cash management requirements established by the federal government. Minn. Stat. Section 268.05, Subd. 2, also requires the department to provide collateral on the benefit account. Without sufficient collateral, money deposited into the account is at risk if the bank defaults on its obligations.

A written contract typically addresses collateral and other miscellaneous bank charges. A written contract would provide a tool for the department to monitor the charges that occur for banking services each month. Without a contract, the bank could raise its charges at any time resulting in additional costs to the department.

Recommendations

- *The department should require the bank to pledge sufficient collateral for the benefit bank account.*
- *The department should execute a written contract with the bank for the benefit account activity.*



MINNESOTA DEPARTMENT OF
Jobs and Training

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April 9, 1992

Mr. James R. Nobles
Legislative Auditor
First Floor, Centennial Office Building
658 Cedar Street
St. Paul, Minnesota 55155

Dear Mr. Nobles:

The following information is offered in response to your draft audit report dated March 24, 1992. Please include this information in your final report.

Recommendation 1

Internal controls over Unemployment Insurance claims processing need improvement.

We agree.

- The Department has, for the instances noted, established overpayments for improperly paid benefits, paid underpaid claimants, and adjusted the employers' experience ratings accordingly.
- A UI Memo is in process directing area office attention to the importance of the systematic retention of certification documents. A specific batching procedure will be implemented and monitored.
- Our Tax Accounting Branch will be implementing a follow-up procedure to ensure that the effect of delinquent or erroneous employer wage reports on the monetary entitlement of individual claimants is communicated to our Benefits Branch for appropriate action. Area Office staff will be advised to focus additional attention on advising claimants to carefully review entitlement determinations when they are delivered to the claimant.

Responsible Individual: Gary Sorensen

Mr. James R. Nobles
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Recommendation 2

The Department of Jobs and Training does not properly suspend unused logon identifications.

We agree. We have begun work to accomplish the necessary programming changes to the security system. Work is expected to be completed by June 1, 1992.

Responsible Individual: John Wirig

Recommendation 3

Controls over the Unemployment Insurance account need improvement.

We agree. We have contacted the Department of Finance, Cash and Debt Management Division, to assist the Department in the development of a Request for Proposal for bank services. Contract requirements will include that the successful bidder pledge sufficient collateral to safeguard government funds.

Responsible Individual: John Stavros

Sincerely,

A handwritten signature in cursive script, appearing to read "R. Jane Brown".

R. Jane Brown
Commissioner

RJB:ams