DEPARTMENT OF LABOR AND INDUSTRY
FINANCIAL AUDIT
FOR THE YEAR ENDED JUNE 30, 1992

MARCH 1993

Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

93-09

Centennial Office Building, Saint Paul, MN 55155 ● 612/296-4708

DEPARTMENT OF LABOR AND INDUSTRY

FINANCIAL AUDIT
FOR THE YEAR ENDED JUNE 30, 1992

Public Release Date: March 18, 1993 No. 93-09

OBJECTIVES:

- EVALUATE INTERNAL CONTROL STRUCTURE: Special Workers' Compensation Fund revenues and expenditures; Occupational Safety and Health Administration (OSHA) revenue; and Code Enforcement revenue.
- 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:

- Internal controls over OSHA receipts were inadequate.

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

STATE OF MINNESOTA
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JAMES R. NOBLES, LEGISLATIVE AUDITOR

Senator Phil Riveness, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. John Lennes, Commissioner
Department of Labor and Industry

Audit Scope

We have conducted a financial related audit of the Department of Labor and Industry as of and for the year ended June 30, 1992. Our audit was limited to only that portion of the State of Minnesota financial activities attributable to the 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 Department of Labor and Industry as of June 30, 1992.

We conducted out 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 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 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 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;
- Occupational Safety and Health Administration (OSHA) revenue;
- Code Enforcement revenue.

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 the Department of Labor and Industry in effect at June 30, 1992, 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. However, we noted some matters involving the internal control structure and its operation that we reported to the management of the Department of Labor and Industry at the exit conference held on January 4, 1993.

The results of our tests indicate that, 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.

This report is intended for the information of the Legislative Audit Commission and management of the 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 March 18, 1993.

We 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: December 11, 1992

Report Signed On: March 12, 1993

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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
Sonya Hill, CPA	Senior Auditor

Exit Conference

The findings and recommendations in this report were discussed with the following staff of the Department of Labor and Industry on January 4, 1993:

Gary Bastian	Deputy Commissioner
Nancy Christensen	Assistant Commissioner, Workplace Services
Leo Eide	Assistant Commissioner, Workers' Compensation
Anina Bearrood	Accounting Director
Deborah Cordes	Director, Special Workers' Compensation Fund
B. James Berg	Director, Code and Inspection Services
Kathy Smith	Office Supervisor, Code and Inspection Services
Terry Mueller	Area Supervisor, Occupational Safety and Health Administration (OSHA)
Ann Shields	Compliance Analysis, OSHA
Evelyn Kuehl	Executive I, OSHA

Introduction

The Department of Labor and Industry is primarily a regulatory agency concerned with protecting the rights of working people in Minnesota. The department is organized into four areas: Workers' Compensation Regulation and Enforcement, Workers' Compensation Special Compensation Fund, Workplace Regulation and Enforcement, and General Support. The department seeks to preserve the human and material resources of the state by preventing workplace injuries and diseases, ensuring the prompt and efficient delivery of statutory benefits and services, and promoting and maintaining fair wages and working conditions as provided by law. 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. These sections create the agency and 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 and received federal funding of $2.9 million for fiscal year 1992.

Administrative costs of the Department of Labor and Industry are financed primarily through General Fund appropriations and federal grants. Fiscal year 1992 expenditures of the department totalled $136,570,549, as shown below.

	General Fund	Federal Fund	Special Workers' Compensation Fund	Other Funds
Workers' Compensation Claims	$ 0	$ 0	$114,053,393	$ 0
Other expenditures	6,728,599	2,965,752	12,324,948	497,857
Total Expenditures	$6,728,599	$2,965,752	$126,378,341	$497,857

In addition, the Department of Labor and Industry collected assessment and investment revenue of approximately $139.2 million for the Special Workers' Compensation Fund during fiscal year 1992. Revenue collected for code and inspection services and OSHA were $2.0 million and $1.1 million, respectively, for fiscal year 1992.

Source: Statewide Accounting System, Managers' Financial Report as of September 5, 1992, and Estimated/Actual Receipts Report as of September 5, 1992.

Current Finding and Recommendations

1. Internal controls over OSHA receipts are inadequate.

Controls in the Occupational Safety and Health Administration (OSHA) Division are weak for processing OSHA program (CFDA #17.500) receipts. The division does not adequately separate duties. Receipt controls are concentrated with one individual. This employee:

- receives checks,
- records checks in the receipts log,
- prepares deposits,
- collects outstanding penalties, and
- completes monthly reconciliations to statewide accounting (SWA) system amounts.

Without adequate separation of duties, the risk that errors or irregularities could occur and go undetected increases.

In addition, the OSHA Division is not consistently depositing receipts promptly. The OSHA Division sometimes processes deposits which include current day receipts and receipts collected the previous day. The OSHA Division sometimes holds checks rather than depositing the entire receipts in the current day's deposit.

Recommendations

- *The Department of Labor and Industry should separate duties in the OSHA Division.*
- *The OSHA Division should deposit receipts promptly in accordance with Minn. Stat. Section 16A.275.*

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March 10, 1993

James Nobles
Office of the Legislative Auditor
Centennial Building
St. Paul, MN 55155

Dear Mr. Nobles:

I have had an opportunity to review the results of your draft Audit Report of the Department of Labor and Industry for the year ending June 30, 1992. In addition, I have discussed the report with members of my staff who are responsible for these matters.

First of all, I would like to commend your audit team for the professional and thorough work it did during the course of the audit. My staff assured me that it was a pleasure working with the team.

The scope of this year's audit encompassed Special Compensation Fund revenues and expenditures, OSHA revenues, and Code Enforcement revenues. With a single exception, the Department's procedures complied with generally accepted accounting procedures.

The concerns of your staff about the OSHA revenue receipt-and-deposit procedure were outlined and discussed at the Exit Conference on January 4, 1993. Assistant Commissioner Nancy Christensen attended the conference and participated in the discussion of possible solutions to the OSHA revenue Finding.

On January 4, I directed Assistant Commissioner Christensen to implement the necessary changes to provide the proper receipt controls and the timely deposits of OSHA fines. In response to this directive, OMT Director Terry Mueller assigned three individuals to handle the receipt process.

The OSHA receptionist will log in and endorse all receipts. The OSHA penalty clerk will process and deposit the receipts daily. Finally, the complaint clerk will log out the receipts. This change was implemented on January 14, 1993. I believe this process is the one recommended at the Exit Conference by Warren Bartz, Mary Annala, and Sonya Hill.

Yours truly,

John B. Lennes, Jr.
Commissioner

JBL/jak