DEPARTMENT OF JOBS AND TRAINING

FINANCIAL AUDIT

FOR THE YEAR ENDED JUNE 30, 1992

JUNE 1993

Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

93-27

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

DEPARTMENT OF JOBS AND TRAINING

FINANCIAL AUDIT
FOR THE YEAR ENDED JUNE 30, 1992

Public Release Date: June 4, 1993 No. 93-27

OBJECTIVES:

- EVALUATE INTERNAL CONTROL STRUCTURE: Federal programs--food distribution, employment services, unemployment insurance, dislocated workers, job training partnership act, weatherization assistance, rehabilitation services basic support, low income home energy assistance block, community services block, and social security disability insurance.

- TEST COMPLIANCE WITH CERTAIN FINANCE-RELATED LEGAL PROVISIONS.

CONCLUSIONS:

We found two areas where the internal control structure needed improvement:
- Unemployment insurance receipts.
- Income contract and management information systems service receipts.

We found two departures from finance-related legal provisions:
- The department is maintaining excessive cash balances in its unemployment insurance clearing account.
- The reports stating unemployment compensation amounts charged to federal agencies under the federal unemployment insurance program have conflicting amounts.

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

STATE OF MINNESOTA
OFFICE OF THE LEGISLATIVE AUDITOR
CENTENNIAL BUILDING, ST. PAUL, MN 55155 • 612/296-4708
JAMES R. NOBLES, LEGISLATIVE AUDITOR

Senator Phil Riveness, 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 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 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 as of June 30, 1992.

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 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.

Due to 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 purpose 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)
- Dislocated Workers (CFDA #17.246)
- 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 Grant (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 and 4 involving the internal control structure of the Department of Jobs and Training. We consider these conditions to be reportable conditions under the 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 amount 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 that none of the findings 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 March 22, 1993.

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 material instances of noncompliance noted in finding number 2.

The results of our tests indicate that, except for the issues discussed in findings 2 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 respects to the 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 June 4, 1993.

We thank the Department of Jobs and Training staff for their cooperation during this audit.

James R. Nobles
Legislative Auditor

John Asmussen, CPA
Deputy Legislative Auditor

End of Fieldwork: March 9, 1993

Report Signed On: May 28, 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
Jack Hirschfeld, CPA	Auditor-In-Charge
Chris Buse, CPA	Auditor
Jean Mellett, CPA	Auditor
Mark Johnson	Auditor
Christina Weiss	Auditor
Geniene Herrlich	Intern

Exit Conference

The findings and recommendations in this report were discussed with the following staff of the Department of Jobs and Training on March 22, 1993:

Earl Wilson	Deputy Commissioner
Norena Hale	Assistant Commissioner, Rehabilitation Services
John Stavros	Director, Fiscal Management
Beverly Amos	Director, Financial Services
Tim Langlie	Accounting Director
Dave Haney	Director, Tax Accounting
Jack Andrews	Supervisor, Budget and Financial Management, Rehabilitation Services
Walter Roers	Director, Disability Determination
Russell Simonson	Director, Human Resources

Introduction

The Department of Jobs and Training (DJT) 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 1992 expenditures for the department were as follows:

Food Distribution (CFDA #10.550)	$ 3,368,000
Employment Services (CFDA #17.207)	12,920,000
Unemployment Insurance (CFDA #17.225)	558,078,000
Dislocated Workers (CFDA #17.246)	6,349,000
Job Training Partnership Act (CFDA #17.250)	27,116,000
Weatherization Assistance (CFDA #81.042)	11,619,000
Rehabilitation Services Basic Support (CFDA #84.126)	35,708,000
Low Income Home Energy Asst. Block Grant (CFDA #93.028)	51,837,000
Community Services Block Grant (CFDA #93.031)	10,442,000
Social Security-Disability Insurance (CFDA #93.802)	11,023,000
Other Programs	101,104,000
Total Expenditures	$829,564,000

Source: Statewide Accounting System Managers Financial Report as of September 5, 1992, 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. The Department of Jobs and Training does not have effective controls over unemployment insurance receipts.

During fiscal year 1992, the Department of Jobs and Training (DJT) collected $307 million of unemployment insurance receipts from employers. Internal controls over these receipts are weak because employees perform incompatible accounting duties. Also, the department does not complete important receipt reconciliation procedures timely. These weaknesses in the internal control structure are exposing unemployment insurance receipts to unnecessarily high financial risks.

Department staff perform incompatible accounting functions. One tax accounting division employee who reconciles receipts also posts payments to employer accounts. A computer report summarizes all receipts posted to employer accounts. Tax accounting staff reconcile these reports to a receipt summary worksheet compiled by fiscal services staff. However, the Fiscal Services Division employee who compiles this manual worksheet also prepares bank deposits and maintains the cash receipt records. No independent person reviews the receipts summary worksheet or the tax accounting section's completed reconciliation to verify accuracy. Internal controls are weak whenever employees perform incompatible accounting functions without independent oversight. To improve controls, the department needs to assign an employee, who is independent of the account posting and receipt depositing functions, to reconcile receipts.

The department also is reducing the effectiveness of the receipt reconciliations by not completing them timely. The department reconciles receipts quarterly rather than monthly. However, the department was three quarters behind at the time of the audit. Employees did not finish reconciling the receipts collected for the quarter ending December 1991 until September 1992. As a result, errors or irregularities could occur and remain undetected for extended periods.

Recommendations

- *The department should assign an employee independent of the account posting and receipt depositing functions to reconcile receipts.*
- *The department should reconcile receipts on a monthly basis and in a timely manner.*

Department of Jobs and Training

2. The Department of Jobs and Training is maintaining excessive cash balances in its Unemployment Insurance Clearing Account.

DJT is not following federal cash management guidelines for the Unemployment Insurance (CFDA #17.225) Clearing Account. The U.S. Department of Labor (Labor) requires state employment agencies to transfer cash out of the Unemployment Insurance Clearing Account within two days. Despite this requirement, DJT keeps an $18,900,000 compensating balance in its clearing account. This balance equals approximately 16 day's receipts. A reasonable effort has not been made to comply with the federal cash management guidelines.

Department personnel explained that this compensating balance is necessary to offset bank service charges that total $1 million per year. In a June 1986 memorandum, Labor denied DJT a supplemental budget request to pay for bank service charges and reemphasized the two day requirement. Labor stated that balances from two days of receipts should generate sufficient earnings for the bank to recover its costs. Labor further explained that charges not essential to processing deposits and withdrawals must be absorbed from the department's current resources.

Compensating balances in the clearing account reduce investment earnings of the Unemployment Insurance Trust Fund. As a result, less money is available to pay unemployment insurance claims of eligible recipients. To prevent additional losses of investment income, the department must transfer receipts to the Unemployment Insurance Trust Fund following Labor guidelines.

Federal cash management requirements are changing. On March 23, 1992, the U.S. Department of Treasury proposed regulations to implement the federal Cash Management Act of 1990. These proposed rules provide states with several options to manage transfers of funds from the federal government for federal programs. Some options involve establishing check clearance patterns and/or incurring interest on federal fund balances. The Minnesota Department of Finance is currently working with state agencies to determine the specific funding techniques agencies will use and to negotiate a state/federal cash management agreement.

Recommendation

- *The department should transfer receipts from the clearing account to the Unemployment Insurance Trust Fund within two days.*

3. The reports stating unemployment compensation amounts charged to federal agencies under the federal Unemployment Insurance Program (CFDA #17.225) have conflicting amounts.

The information on reports (Report ES-191) of unemployment compensation payments to former federal employees submitted to the U.S. Department of Labor has unresolved discrepancies. The ES-191 report is the basis for the reimbursement of costs of unemployment compensation by other federal agencies to the U.S. Department of Labor. The ES-191 report consists of a summary page and supporting attachments. The Financial Management Division prepares the summary page and lists the total of all payments made during the quarter to federal employees and ex-service members. The tax accounting section prepares the attachments listing the amount of charges to individual federal agencies and military branches. Significant differences exist on each report between the reported payments and the amount charged to federal agencies. The differences between the payment amounts and the charge amounts fluctuate by quarter. The report for the quarter ending June 1992 showed that the expenditures on the summary page exceeded the charge amounts by $175,000.

DJT does not reconcile the differences between the amount of unemployment compensation payments to the amount actually charged to the federal agencies. Reasons for the differences include adjusting entries and timing differences. The tax accounting section completes manual adjustments to the charge system. These adjustments are to correct improper charges to federal employers, reducing the costs for federal agencies. In addition, timing differences exist between the payment system and the charge system. However, we do not know if there are other reasons for the differences. DJT needs to reconcile the payment amounts to the actual amount charged to the federal agencies. Without the reconciliation of these amounts on the report, DJT cannot be sure of the accuracy of the reports. Because of the inaccuracy of these reports, the federal agencies and military branches may not be reimbursing the Unemployment Insurance Fund for the correct amount.

Recommendation

- *DJT should provide accurate reports (ES-191) of unemployment compensation paid to former employees of federal agencies and military branches.*

4. The Department of Jobs and Training needs to strengthen controls over income contract and management information systems service receipts.

Internal controls over income contracts and management information systems (MIS) service receipts are weak, because employees perform incompatible accounting duties. Also, the department does not deposit receipts on a timely basis. For service income contracts, one employee submits the billings, receives the checks, maintains the account receivable records, and completes the deposits. Also, for MIS receipts, another employee submits the billings, receives the checks, and maintains the accounts receivable records. Internal controls are weak whenever the same employee receives cash, maintains accounting records, and prepares deposits. Separating accounting functions from cash receipts is necessary to prevent and detect errors and irregularities.

The department does not deposit income contract and MIS service receipts timely. Currently, department staff deposit income contract money twice a month, and MIS money once a week. These receipts range from several hundred dollars to over $200,000. Minn. Stat. Section 16A requires state agencies to deposit receipts totaling over $250 daily, unless the

Department of Jobs and Training

Commissioner of Finance provides an exemption. The department has not received a waiver from Finance.

Recommendations

- *The department should assign the cash receipt function to an employee independent of the accounting function.*
- *The department should deposit cash receipts timely.*

MINNESOTA DEPARTMENT OF
Jobs and Training

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May 17, 1993

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 May 4, 1993. Please include this information in your final report.

Recommendation 1

The department should assign an employee independent of the account posting and receipt depositing functions to reconcile receipts.

The department should reconcile receipts on a monthly basis and in a timely manner.

We agree with the first part of the recommendation. However, we do not agree with the second portion of the recommendation that receipts should be reconciled monthly. We will do a timely reconciliation of the Lock Box receipts (which cross parts of two months of the quarter) that represent 80 percent of the activity. We will then reconcile all receipts quarterly and in a timely manner.

Recommendation 2

The department should transfer receipts from the clearing account to the Unemployment Insurance Trust Fund within two days.

The Cash Management Improvement Act (CMIA) will be implemented on July 1, 1993. That Act significantly altered the cash management position of the USDOL. The U.S. Department of Labor is planning to develop regulations that conform to the cash management methodology contained in the Cash Management Improvement Act. Per the Department of Labor, *"The current desired levels of achievement are over 10 years* *old and neither reflect nor adequately measure good cash management or current technology . . .* " Since the new methodology contained in the CMIA recognizes/allows the states to earn interest on its compensating balances to offset banking costs, we feel that, until regulations are promulgated, our cash management of the Clearing Account is justified.

Recommendation 3

DJT should provide accurate reports (ES-191) of unemployment compensation paid to former employees of federal agencies and military branches.

We believe that the employer charge system already does provide accurate reimbursement amounts for the federal agencies and the military branches. The employer charge system is now the basis for charges. However, until the employer charge system can be re-designed, it is not possible to completely reconcile to data in the Benefit Payment System. Current plans are to begin re-designing the employer charge system in January 1994.

Recommendation 4

The department should assign the cash receipt function to an employee independent of the accounting function.

The department should deposit cash receipts timely.

We agree. We will separate deposit duties and make deposits in a timely manner.

Sincerely,

Jane Brown

R. Jane Brown
Commissioner

RJB:ams