DEPARTMENT OF JOBS AND TRAINING

FINANCIAL AUDIT

FOR THE YEAR ENDED JUNE 30, 1993

JUNE 1994

Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

94-28

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

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, 1993. 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 outlined below and as further 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, 1993. The 1994 Legislature changed the name to the Department of Economic Security.

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.

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)
- 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 #93.568)
- Community Services Block Grant (CFDA #93.569)
- 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.

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.

Conclusions

Our study and evaluation disclosed the conditions discussed in findings 1, 2, 3, 10, and 11 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 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 April 15, 1994.

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. We consider finding number 5 to be a material instance of noncompliance.

The results of our tests indicate that, except for the issues discussed in findings 4, 6, 7, 8, and 9, 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 17, 1994.

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 18, 1994

Report Signed On: June 10, 1994

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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
Mary Annala, CPA	Auditor
Chris Buse, CPA	Auditor
Beth Hammer, CPA	Auditor
Jean Mellet, CPA	Auditor
Nataly Pugachevsky	Intern

Exit Conference

The findings and recommendations in this report were discussed with the following staff of the Department of Jobs and Training on April 15, 1994:

R. Jane Brown	Commissioner
Earl Wilson	Deputy Commissioner
Byron Zuidema	Assistant Commissioner, Community Based Services
Norena Hale	Assistant Commissioner, Rehabilitation Services
Richard Davis	Assistant Commissioner, Services for the Blind
John Stavros	Director, Fiscal Management
Beverly Amos	Director, Financial Services
Tim Langlie	Accounting Director
John Thomas	Assistant Director, Unemployment Tax Accounting
Ken Niemi	Chief Information Officer
Terry Clark	Director, Unemployment Insurance Benefit Programs
Janelle Stoesz	Manager, Tax Processing
Greg Klinkhammer	Supervisor, Tax Processing
Julie Talbott	Director, Services for the Blind, Client/Staff Support
Jim Korkki	Director, Dislocated Workers
Marge Heininger	Accounting Officer

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 - provides a variety of services to meet various needs such as energy assistance and emergency food distribution; and
- Minnesota Employment and Economic Development - provides employers with reimbursement for a portion of the salary costs of qualified job applicants.

The Governor appointed R. Jane Brown as 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 1993 expenditures for the department were as follows:

Department of Jobs and Training Expenditures
Fiscal Year 1993

Food Distribution (CFDA #10.550)	$ 2,986,000
Employment Services (CFDA #17.207)	13,613,000
Unemployment Insurance (CFDA #17.225)	579,346,000
Dislocated Workers (CFDA #17.246)	7,513,000
Job Training Partnership Act (CFDA #17.250)	33,173,000
Weatherization Assistance (CFDA #81.042)	10,838,000
Rehabilitation Services Basic Support (CFDA #84.126)	43,633,000
Low Income Home Energy Asst. Block Grant (CFDA #93.568)	49,365,000
Community Services Block Grant (CFDA #93.569)	10,187,000
Social Security-Disability Insurance (CFDA #93.802)	11,638,000
Other Programs	93,207,000
Total Expenditures	$855,499,000

Source: Statewide Accounting System Managers Financial Report as of September 3, 1993, 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 (DJT) failed to recover its full reimbursements from the federal government for the Emergency Unemployment Compensation Program.

The Department of Jobs and Training had not sought federal reimbursement for over $3.8 million because of incomplete and inaccurate accounting records in fiscal years 1992 and 1993. DJT did not detect formula errors in the computerized accounting records of the federal Emergency Unemployment Compensation (EUC) Program (CFDA #17.225). It also did not record some types of expense transfer transactions in the EUC accounting records. DJT records EUC payments in the Unemployment Compensation Fund accounting records, and then requests federal reimbursement for these benefit payments. Therefore, the accounting ledgers for the EUC program must contain accurate and complete financial activity to enable DJT to recover the proper expenditure reimbursements from the U.S. Department of Labor.

As a result of formula errors in the EUC program's computerized accounting records, DJT failed to recover $1,553,000 in fiscal year 1993. We found that DJT had also not received $1,474,000 in 1992 due to the same problem. The department was not aware of these errors until we identified them during our audit, but since has recovered these amounts.

Due to inadequate communication between divisions, DJT did not record any expense transfers in the EUC accounting records from November 1991 through April 1993. As a result, EUC program expenditures and the corresponding federal reimbursements for that period are understated. We believe that the amount of these unrecorded expenditures could be significant since the May and June 1993 expense transfers totaled $134,000 and $102,000, respectively.

EUC expenditures and subsequent federal reimbursements are also understated, because DJT did not record any "offset" expenditures in its ledgers. Offset transactions occur when the agency retains claimant's benefit checks to recover previous overpayments. These offset expenditures from the inception of the EUC program through September 1993 totaled $839,000. The agency needs to seek additional federal reimbursement for these amounts.

Recommendations

- *DJT should coordinate its efforts to ensure the accuracy of the accounting records for the Emergency Unemployment Compensation Program.*
- *DJT should develop reconciliations or other procedures to verify the accuracy of the EUC ledgers.*
- *The department should resolve its record keeping errors by:*

- -- *requesting additional reimbursement from the federal government or repaying any amounts overclaimed, as necessary;*
- -- *correcting all formula errors in its computerized ledgers; and*
- -- *posting all offset expenditures and expense transfers which occurred since the inception of the program.*

2. PRIOR FINDING NOT RESOLVED: The Department of Jobs and Training does not have effective internal controls over Unemployment Insurance receipts, particularly the $30 million receipts processed by the cashier unit.

During fiscal year 1993, the Department of Jobs and Training(DJT) collected $317 million of unemployment insurance receipts from employers. Most revenue was deposited in the bank through a "lock box" system. DJT did not reconcile receipts or have adequate controls over receipts processed by the cashier unit. The weaknesses in the internal control structure are exposing unemployment insurance receipts to unnecessary risk. The weaknesses are summarized as follows:

- The department is not reconciling receipts timely. A reconciliation is necessary to ensure that receipts are deposited and accurately recorded in department records. For fiscal year 1992 we reported that DJT was three quarters behind in reconciling receipts. Controls over reconciling receipts further deteriorated during fiscal year 1993. At the completion of the financial statements in November 1993, DJT was six quarters behind in reconciling receipts. Department staff were working on reconciling receipts for the quarter ended June 30, 1992. The department made progress in this area during fiscal year 1994. Finally, in March 1994, DJT completed all the reconciliations through June 1993 receipts and was only two quarters behind. In addition, it claimed to be reconciling the receipts on a monthly basis and had completed January and February 1994.

- Some department staff were performing incompatible accounting functions during fiscal year 1993. One tax accounting division employee who reconciled receipts also posted receipts to employer accounts. A fiscal services employee who was responsible for compiling a manual worksheet summarized cash receipts. This person's job duties also included preparing bank deposits and maintaining the cash receipts records. Internal controls are weak whenever employees perform incompatible accounting functions without independent oversight. Beginning with the January 1994 reconciliation, the department has assigned an independent person to reconcile receipts.

- The cashier unit does not have adequate controls over receipts during processing. During fiscal year 1993 the department cashier unit received and deposited $30 million of unemployment receipts. The department cashiers do not account for all receipts. The cashier unit distributes checks to various divisions for processing. These divisions are not required to return all receipts to the cashier unit for deposit. Employees in these divisions told us that they may return checks to employers or reroute checks. Without a proper accounting of receipts, no assurance that the department can account for all checks exists. In addition, the cashier unit does not restrictively endorse checks promptly. Without a timely endorsement, checks are susceptible to additional risk.

Recommendations

- *The department should reconcile receipts on a monthly basis and in a timely manner.*
- *The department should insure that an employee independent of the cash transactions reconcile receipts.*
- *The cashier unit should restrictively endorse and maintain accountability for all checks received.*

3. The Department of Jobs and Training is not accurately determining the accounts receivable balance for the Unemployment Compensation Fund financial statements.

In its initial report to the Department of Finance, DJT overstated the fiscal year 1993 Unemployment Compensation Fund accounts receivable balance by $18 million, which was later written down. Employees used a computer report generated for determining the receivable amount. The report included amounts recorded in the unemployment contribution file. Upon analysis, we determined that the report included some receipt types considered uncollectible. In addition, to the amounts shown on the computer report, DJT estimated amounts owed from employers who have not filed quarterly reports. These estimates comprised 60 percent of the accounts receivable total. However, the department did not maintain any historical information on what percentage of these accounts were collectible. It has developed an estimated uncollectible amount based on a cutoff of accounts over six years old. The department does not know if this amount was correct.

With historical information the department could develop an accurate estimate of collectible accounts receivable. The department also did not use an allowance for doubtful accounts. To accurately state the receivable amount on the financial statements, DJT reduced the accounts receivable amount on the fiscal year 1993 financial statements by the estimated amounts.

Recommendation

- *The department should calculate an allowance for doubtful accounts for the Unemployment Compensation Fund in accordance with generally accepted accounting principles.*

4. PRIOR RECOMMENDATION NOT IMPLEMENTED: 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. However, DJT continues to maintain an $18,900,000 compensating balance in its clearing account. This balance equals approximately 14 days of receipts. The department believes it has insufficient resources to pay for the bank's charges. Thus, it has chosen to disregard the federal cash management guidelines.

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.

DJT personnel explained that this compensating balance is necessary to offset bank service charges related to the lockbox operation. It estimated potential bank charges as about $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. However, a conflict exists between the Labor Guidelines and expectations required of the state agency. The Region V Office of the U.S. Department of Labor acknowledged that it did not provide the state with supplemental resources to maintain a lockbox operation. Labor also understood that it would be difficult for the state to pay the bank service charges from its existing $36 million administration budget. Thus, it understood the state's problem in complying with the cash management guidelines. The Department of Labor anticipates that the clearing account cash management issue will be addressed in new cash management requirements scheduled for publication in 1994.

Recommendation

- *The Department of Jobs and Training should comply with the new cash management requirements when published by the U.S. Department of Labor. Meanwhile, DJT should comply with the current cash management guidelines and transfer cash out of the clearing account in a timely manner.*

5. DJT incurred a deficit in a federal account as a result of paying remodeling costs without sufficient resources.

The Department of Jobs and Training (DJT) improperly financed $3 million of remodeling costs by misusing its authority to cover temporary short-term cash flow problems in a federal account. DJT initiated the remodeling of the central office building without securing adequate funding to pay for these costs. The department incurred over $3 million of costs not covered by an appropriation.

Because of cash flow problems in the federal account, DJT had the Department of Finance remove an edit that limited spending to resources deposited in the state treasury. Finance authorized the department to temporarily exceed its available resources by up to $30 million in anticipation of receiving federal reimbursement in a few days. However, the department misused this authority to charge over $3 million of departmental remodeling costs to the accounts. These costs were not eligible for federal reimbursement. As a result, a deficit exists in the federal account. Another effect was that it caused the department to exceed the $30 million limit when it needed the money to operate federal programs. DJT planned to eliminate the deficit with discretionary funds collected over the ensuing three years. We consider this to be a material instance of noncompliance with Minn. Stat. Section 10.17, or spending in excess of appropriated funds.

DJT intends to replenish the federal account from penalty and interest collected over a three-year period on delinquent employer contributions for unemployment insurance. State law allows DJT to use the penalty and interest proceeds for general operating costs, including remodeling projects. As of January 1994, DJT had transferred $1,661,000 from the penalty and interest account to the federal account. DJT intends to transfer the remaining $1,465,000 by the end of fiscal year 1995.

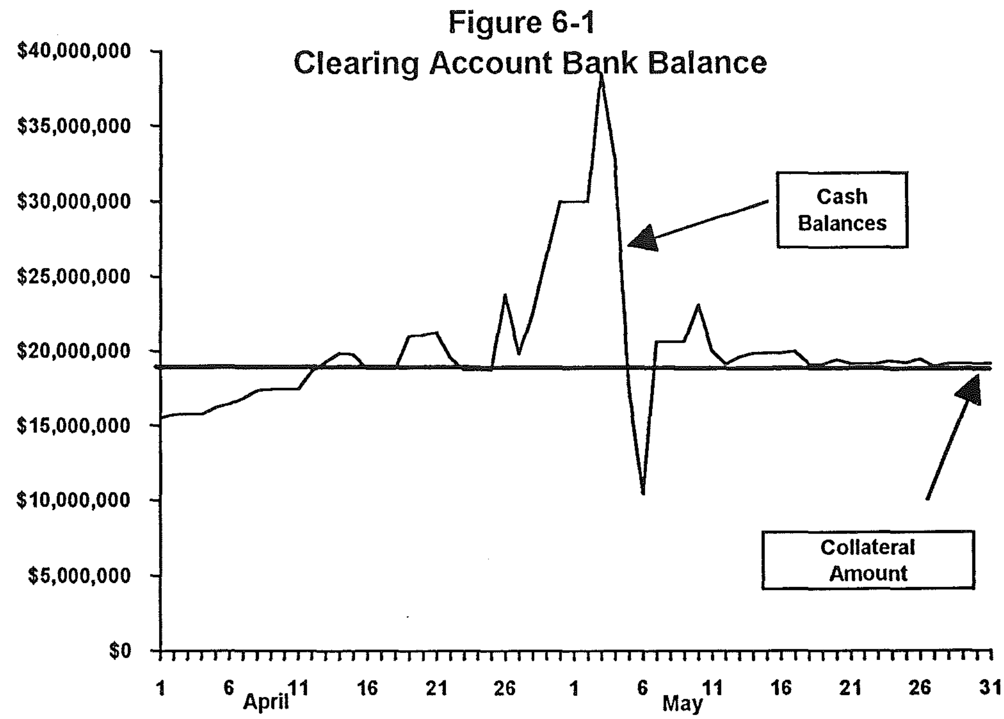
Recommendations

- *DJT must resolve the remaining deficit of $1,465,000 in the federal account.*
- *DJT must refrain from spending in excess of immediate, authorized resources.*
- *DJT must charge expenditures to the proper accounts.*

6. The Department of Jobs and Training bank balances exceeded the collateral amount authorized by statute.

Bank account balances in two accounts exceeded the collateral amount during 1993. The Department of Jobs and Training(DJT) maintains two bank accounts for the administration of the Unemployment Insurance Program (CFDA #17.225). The department has established a surety bond with the bank to serve as collateral for the balances in each of the accounts. The surety bond totals $24 million, $5 million applicable to the benefit account and $19 million to the clearing account. DJT uses the benefit account to make unemployment payments to eligible clients. It uses the clearing account for deposits of taxes paid by employers. Minn. Stat. Section 9.031 requires state agencies to ensure that the amount on deposit not exceed 90 percent of the market value of the bonds in the account.

During 1993 the department maintained cash balances exceeding the collateral amount. For the period January through November 1993 the clearing account monthly average balance exceeded the collateral amount seven of the eleven months. The benefit account exceeded the collateralized limit for five of the eleven months during the same period. In a review of the two month period ending May 31, 1993, cash balances in the clearing account exceeded the collateral amount for 50 days. Chart 6-1 shows the range of the cash balances in the clearing account during April and May of 1993.



Note: The vertical column represents the amount in the clearing account and the horizontal line shows the dates during April and May 1993.

Source: U.S. Dept. of Labor U/S Income Expense Analysis Reports.

The department developed, in fiscal year 1994, a process using the bank's on-line computer system to transfer excess funds out of the clearing account at the end of each day. This will reduce the amount of excess money in the account. In addition, staff plan to raise the collateralized amount for the benefit account to reduce the possibility of the department exceeding the collateralized balance.

Recommendation

- *The department should comply with the statutory requirements and maintain collateral for all bank accounts sufficient for the cash balance in the accounts.*

7. The Department of Jobs and Training reported inaccurate information on the annual activity report for the Weatherization Assistance for Low Income Persons Program.

The Weatherization Assistance Management Summary Report under CFDA #87.942 for the year ending March 31, 1993, contains inaccurate data. DJT incorrectly reported the number of households weatherized during the program year. The U.S. Department of Energy (DOE) used this report to determine whether the state complied with the federally authorized average weatherization cost per house of $1,697. The report, prepared in August 1993, indicated that the state exceeded the authorized average cost by $78 per unit, or $436,000 for the 5,595 units weatherized. We pointed out the lack of compliance with program requirements to DJT personnel. They reviewed the original report and supporting documentation, and noted that some reports from local agencies were missing, and that these totals were not included in the management summary report. They also found that some local agency reports were incomplete. They reconstructed the report and determined that the actual number of houses weatherized totaled 6,003. The revised total reduced the average cost to $1,654, which falls within the program requirements.

Recommendation

- *DJT should develop a process to prepare accurate weatherization management summary reports.*

8. The Department of Jobs and Training improperly charged remodeling costs to the federal Unemployment Insurance Program.

During fiscal year 1993 DJT improperly charged some remodeling costs to the federal Unemployment Insurance Program (CFDA #17.225). The department purchased 70 automatic door operators totaling $76,000 for various entry and vestibule doors at its statewide offices. The department considered this amount to be insignificant to program costs in its federal programs.

Federal regulations permit states to directly charge costs to federal programs only if purchases are made specifically for the grant program. Costs that benefit multiple federal programs are to be allocated proportionately among these programs. Since the offices operate several federal programs, costs need to be allocated to all appropriate programs in accordance with the requirements of the Office of Management and Budget Circular A-87. The department currently is in the process of allocating the costs to other federal programs.

Recommendation

- *The Department of Jobs and Training should reallocate the remodeling costs among the federal programs.*

9. The Department did not obtain prior approval for some administrative expenditures charged to three federal programs.

The department did not obtain prior approval for expenditures charged to the following three programs.

The department did not obtain prior federal approval for two professional technical contracts charged to the Rehabilitation Services Basic Support Program (CFDA #84.126). Federal regulations state that costs of professional services provided by an organization not part of the grantee department are allowable subject to such prior approval as may be required by the federal grantor agency. The federal grantor agency-the U.S. Department of Education-in a memo dated January 1985 notified DJT that prior approval for professional services was required.

The Services for the Blind and Visually Handicapped Division established a three year contract ending September 1994 totaling $481,000 to provide radio operations. The Division of Rehabilitation Services had a contract with the University of Minnesota totaling $176,000 for psychometric evaluations of clients and training sessions. The department did not obtain prior approval for either of these contracts.

The department also did not obtain prior approval to pay for construction costs of a Minneapolis building charged to the Unemployment Insurance (CFDA # 17.225) and Employment Services (CFDA #17.207) Programs. Initial funding was provided by the proceeds from the sale of a building and state appropriation. In August 1992 the department determined that sufficient money was not available to complete the construction. The department decided to split the remaining cost of $522,000 between the two federal programs. Federal regulations allow the charging of construction costs to federal programs when specifically approved by the grantor agency. The department did not obtain the prior approval. After we cited this oversight issue, the department requested and obtained approval from the U.S. Department of Labor in February 1994.

Recommendation

- *The Department of Jobs and Training should obtain prior approval from the federal grantor agency before incurring some administrative expenditures.*

10. The department does not have an automatic sign-off control on terminals linked to its computer network.

Terminals connected to the department's computer network do not have an automatic sign-off control. In November 1992 the commissioner's management team authorized the elimination of the automatic sign-off on department terminals. Prior to this authorization, the department had a thirty-minute automatic sign-off. The automatic sign-off is an important internal control in preventing unauthorized access to the system. This control results in each terminal signing off of the active program after thirty minutes of no use. It was designed to protect employers, claimants, and employees from fraudulent abuse of the systems. All terminals connected to the department's computer network now remain on all day unless signed off by individual staff. This allows unauthorized staff to use terminals when work stations are left unattended.

The department is incurring significant risk by the removal of this control. The authorization to remove the control was in response to staff requests. The staff felt that it interfered with the quality of customer service. The commissioner's management team complied with the requests and moved the accountability for security from the system to the staff. Risks associated with the decision to remove this control include unauthorized access to confidential information, and the potential ability to enter illegal monetary transactions within the system.

Recommendation

- *The department should review the decision to remove the automatic sign-off control from the computer system. Included in the review should be a determination of available options to secure access to the data.*

11. Dislocated Workers staff did not have adequate accounting information to eliminate unauthorized borrowing.

Dislocated Workers Program (CFDA #17.246) staff did not have adequate accounting information to monitor grant awards and expenditures. Because staff could not properly track expenditures and awards, the department over obligated its program year 1992 federal formula grant by $1,243,000. The department used the Job Training Partnership Act Program (CFDA #17.250) funding to pay additional expenditures, which in effect allowed unauthorized borrowing of grant amounts.

The department needs adequate accounting information to track awards and expenditures. Federal regulations require the department to spend 80 percent of its formula grant by the end of the program year. However, dislocated worker grantee expenditures are difficult to predict. Grantees spend funds at different rates. Some grant projects are canceled and some grantees do not spend their entire awards. These variances reduce the ability of the department to meet the program requirements.

The department is implementing recommendations to ensure that accounting information is adequate and that additional expenditures are not charged to other Job Training Partnership Act programs. In fiscal year 1994, DJT transferred some federal Dislocated Workers Program costs to its state account. DJT staff stated that the department also will transfer additional program year 1992 expenditures to the state account to repay the Job Training Partnership Act Program. DJT in 1994 has developed a computer program to monitor the awards and obligations. DJT staff also plan to meet quarterly to review grantee expenditures.

Recommendation

- *The department should monitor the expenditures of the Dislocated Workers Program to ensure it does not exceed the grant award.*

Minnesota Department of

Economic Security

Formerly the Department of Jobs and Training

June 8, 1994

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

Dear Mr. Nobles:

The following information is offered in response to your draft audit report dated May 17, 1994. Please include this information in your final report.

Recommendation 1

DES should coordinate its efforts to ensure the accuracy of the accounting records for the Emergency Unemployment Compensation Program.

DES should develop reconciliations or other procedures to verify the accuracy of the EUC ledgers.

The department should resolve its record keeping errors by:

- **requesting additional reimbursement from the federal government or repaying any amounts overclaimed, as necessary;**

- **correcting all formula errors in its computerized ledgers; and**

- **posting all offset expenditures and expense transfers which occurred since the inception of the program.**

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Fiscal Management is working with UI Staff Services and Data Processing in reviewing accounting software, as well as refining UI reports currently used to account for UI funds.

We have corrected all formula errors in the computerized EUC accounting records, an additional EUC ledger is being maintained as a monthly check to ensure continued accuracy of formula calculations.

Benefit Payment Control has filled the position that reviews unresolved cases affecting expense transfers. They plan to complete the back log of charge adjustments as quickly as the new hire can review and analyze the unresolved cases.

We have requested or repaid all identified additional reimbursements and overclaims.

The posting of offset expenditures and expense transfer will be made as they are identified for Fiscal Management.

Fiscal Management is currently reviewing fund accounting software to automate the manual process in accounting for UI funds. We believe a double entry accounting system will eliminate many of the problems encountered in the past.

Recommendation 2

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

The department should ensure that an employee independent of the cast transactions reconcile receipts.

The cashier unit should restrictively endorse and maintain accountability for all checks received.

Due to staff workload, the backlog of reconciling took longer than planned. However, UI quarterly receipts have now been reconciled through December of 1993. The quarterly reconciliations will be kept current in relation to the final quarterly receipt postings.

The lockbox receipts are being reconciled in Financial Management on a monthly basis. Both reconciliation activities are completed by an employee independent of cash transactions.

Controls have been established so that the cashier unit does account for all receipts. We do not necessarily agree with the partial finding that the cashier unit should restrictively endorse all checks received. Representatives of Norwest Bank have indicated that restrictive endorsement offers negligible additional security. This issue requires further study and a decision regarding restrictive endorsement will be made by September 1, 1994.

Recommendation 3

The department should calculate an allowance for doubtful accounts for the Unemployment Compensation Fund in accordance with generally accepted accounting principles.

We will calculate an allowance for doubtful accounts in accordance with state law and the policies developed by the Department of Finance through the statewide Receivables Reporting program.

Recommendation 4

The Department of Economic Security should comply with the new cash management requirements when published by the U.S. Department of Labor. Meanwhile, DES should comply with the current cash management guidelines and transfer cash out of the clearing account in a timely manner.

The Cash Management Improvement Act (CMIA) was 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 methods contained in the Cash Management Improvement Act. Per the Department of Labor, *"The current desired levels of achievement are over ten 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 5

DES must resolve the remaining deficit of $1,465,000 in the federal account.

DES must refrain from spending in excess of immediate, authorized resources.

DES must charge expenditures to the proper accounts.

Background: DES Headquarters Building had been neglected for many years in terms of infrastructure (i.e., wiring capacity) and health safety issues (smoke detectors, alarm systems), accessibility requirements of ADA, and general office furnishings' inadequacies (furniture purchased over a period of 25 years, lacking in function, ergonomics, etc.). The deficiencies in the building have been allowed to accumulate because the U.S. Department of Labor discontinued funding of building projects, remodelling, etc. Because of the federal equity in the building, the department's priority for state funding has been low.

In the spring of 1992, a project was undertaken to correct the above, to modularize the building to consolidate headquarters staff and to save lease costs being incurred for the CBS Division (approximately $225,000 per year). As the project progressed, additional phases were undertaken due to ADA requirements, building and fire code mandates, etc. Third party financing was obtained for approximately $2,500,000 of equipment purchased (workstations, chairs, filing cabinets).

Receipts deposited to the penalty and interest account are approximately $2,000,000 per year. Consequently, the deficit in the federal account will be resolved by about August, 1995.

DES will not undertake any further projects until the deficit is resolved and then will not spend in excess of appropriated funds.

Recommendation 6

The department should comply with the statutory requirements and maintain collateral for all bank accounts sufficient for the cash balance in the accounts.

We are working with Norwest Bank to implement a system that allows us to view daily lockbox receipts in the clearing account so that appropriate wire transfers may be made to keep balances under the collateral limits. We have also raised the benefit account collateralized limit to allow for balances to fluctuate. It is not possible to accurately predict the daily clearing account receipts. Also, for short periods each quarter, lockbox receipts may spike above the collateral limits. We believe these brief periods of spikes do not represent a significant risk of loss.

Recommendation 7

DES should develop a process to prepare accurate weatherization management summary reports.

We agree. We will more closely monitor reports from local agencies to ensure compliance.

Recommendation 8

DES should reallocate the remodeling costs among the federal programs.

We agree. The equipment will be charged as the door openers are allocated to various offices.

Recommendation 9

DES should obtain prior approval from the federal grantor agency before incurring some administrative expenditures.

We agree. The department was unaware, in both cases, that prior approval was necessary. We will seek retroactive approval and, in the future, obtain the proper approvals before incurring expenditures.

10. Recommendation

The department should review the decision to remove the automatic sign-off control from the computer system. Included in the review should be a determination of available options to secure access to the data.

We have reveiwed the decision to remove the automatic signoff control. No instances of unauthorized access or illegal transactions has occurred. We feel that the efficiencies gained and the empowerment of staff to maintain security outweigh the risks involved.

11. Recommendation

The department should monitor the expenditures of the Dislocated Workers Program to ensure it does not exceed the grant award.

We agree. Fiscal Management and Community Based Services will increase their monitoring efforts with the review of the SESA monthly reports and staff meetings as needed.

Sincerely,

Jane Brown

R. Jane Brown
Commissioner