

Department of Economic Security

Financial Audit

For the Year Ended June 30, 1994

May 1995

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Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

SUMMARY

State of Minnesota

Office of the Legislative Auditor
Centennial Office Building • St. Paul, MN 55155
612/296-4708

Department of Economic Security

Financial Audit For the Year Ended June 30, 1994

Public Release Date: May 5, 1995

No. 95-20

Objectives:

- Review Internal Control Structure for the following programs: Food Distribution, Employment Services Administration, Unemployment Insurance, Dislocated Workers, Job Training Partnership Act, Disaster Unemployment Assistance, Rehabilitation Services Basic Support, Low Income Home Energy Assistance Block Grant, Social Security-Disability Insurance.
- Test compliance with certain finance-related provisions.

Conclusions:

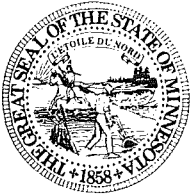
We found three areas where the internal control structure needed improvement:

- The department has assigned incompatible accounting duties to an employee in the fiscal services section.
- The department did not have an adequate accounting system for the Disaster Unemployment Assistance Program.
- The department's internal controls over combined wage claim and overpayment receipts need improvement.

We found one area where the department had not complied with finance-related legal provisions:

- The department is inappropriately subsidizing employee parking.

Contact the Financial Audit Division for additional information.
296-1235



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

CENTENNIAL BUILDING, ST. PAUL, MN 55155 • 612/296-4708

JAMES R. NOBLES, LEGISLATIVE AUDITOR

Members of the Legislative Audit Commission

Ms. R. Jane Brown, Commissioner
Department of Economic Security

Audit Scope

We have completed a financial related audit of the Department of Economic Security for the year ended June 30, 1994 as outlined below, and as further discussed in the Introduction. The work conducted in the department is part of our Statewide Audit of the State of Minnesota's fiscal year 1994 financial statements, and Single Audit (federal compliance audit). The Single Audit coverage satisfies the federal government's financial and compliance audit requirements for all federal programs administered by the department during fiscal year 1994.

We conducted our audit in accordance with generally accepted government accounting standards. Those standards require that we consider the internal control structure in order to plan our audit, and that we perform tests of the department's compliance with certain material provisions of laws, regulations, contracts and grants. However, our objective was not to provide an opinion on the internal control structure or on overall compliance with finance-related legal 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 Administration (CFDA #17.207)
- Unemployment Insurance (CFDA #17.225)
- Dislocated Workers (CFDA #17.246)
- Job Training Partnership Act (CFDA #17.250)
- Disaster Unemployment Assistance (CFDA #83.516)
- Rehabilitation Services Basic Support (CFDA #84.126)
- Low Income Home Energy Assistance Block Grant (CFDA #93.568)
- Social Security-Disability Insurance (CFDA #93.802)

For 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

Management of the Department of Economic Security is responsible for establishing and maintaining the 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 internal control 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 operations of policies and procedures may deteriorate.

Conclusions

Our audit disclosed the conditions discussed in findings 1 through 3 involving the internal control structure of the Department of Economic Security. 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 noted no matters involving the internal control structure and its operation that we consider to be material weaknesses as defined above.

The department did not comply with a Department of Labor requirement that cash deposited in the unemployment insurance clearing account be transferred to the Unemployment Insurance Trust Fund within three days of receipt. We previously reported this matter in our reports for fiscal year 1992 and 1993. However, the Audit Resolution Division of the Department of Labor informed us that until cash management guidelines addressing this problem are developed, it will not enforce the requirement.

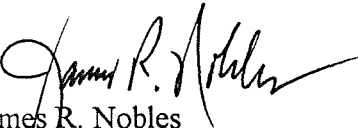
The results of our other tests of compliance indicate that, except for the issue discussed in finding 4, with respect to the items tested, the Department of Economic Security complied, in all material respects, with the provisions referred to in the audit scope paragraphs. With respect to the items not tested, nothing came to our attention that caused us to believe that the Department of Economic Security had not complied, in all material respects, with those provisions.

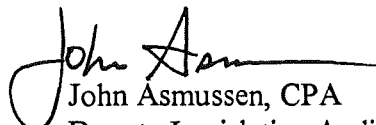
The department disagrees with finding 4. We believe that our conclusions and recommendations still are valid. Therefore, we are referring this finding with its corresponding recommendations to the Department of Administration for resolution.

We also noted other matters involving the internal control structure and its operation and compliance with laws and regulations that we reported to the management of the Department of Economic Security at the exit conference held on March 13, 1995.

This report is intended for the information of the Legislative Audit Commission and management of the Department of Economic Security. This restriction is not intended to limit the distribution of this report, which was released as a public document on May 5, 1995.

We thank the Department of Economic Security staff for their cooperation during this audit.


James R. Nobles
Legislative Auditor


John Asmussen, CPA
Deputy Legislative Auditor

End of Fieldwork: January 31, 1995

Report Signed On: April 27, 1995

Department of Economic Security

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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
Beth Hammer, CPA	Auditor
Jean Mellett, CPA	Auditor

Exit Conference

The findings and recommendations in this report were discussed with the following staff of the Department of Economic Security on March 13, 1995:

R. Jane Brown	Commissioner
Earl Wilson	Deputy Commissioner
Gary Sorensen	Assistant Commissioner, Job Service and Unemployment Insurance
Byron Zuidema	Assistant Commissioner, Community Based Services
Jim Korkki	Director, Dislocated Workers
John Stavros	Director, Fiscal Management
Bev Amos	Director, Financial Services
Tim Langlie	Accounting Director
Marge Heininger	Accounting Officer
John Thomas	Assistant Director, Unemployment Tax Accounting
Carol Deutsch	Supervisor, Benefit Payments
Janelle Stoesz	Supervisor, Tax Processing

Department of Economic Security

Introduction

The Department of Economic Security (formerly 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;
- Reemployment 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 1994 expenditures for the department were as follows:

Table 1
Department of Economic Security Expenditures
Fiscal Year 1994

Food Distribution (CFDA #10.550)	\$ 3,775,000
Employment Services Administration (CFDA #17.207)	16,356,000
Unemployment Insurance (CFDA #17.225)	125,334,000
Unemployment Insurance Benefit Payments	386,723,000
Dislocated Workers (CFDA #17.246)	12,919,000
Job Training Partnership Act (CFDA #17.250)	29,973,000
Disaster Unemployment Assistance (CFDA #83.516)	18,703,000
Rehabilitation Services Basic Support (CFDA #84.126)	43,708,000
Low Income Home Energy Assistance (CFDA #93.568)	74,370,000
Social Security-Disability Insurance (CFDA #93.802)	12,358,000
Other Programs	<u>103,608,000</u>
Total Expenditures	<u>\$827,609,000</u>

Source: Statewide Accounting System Managers Financial Report as of September 2, 1994, 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 Economic Security has assigned incompatible accounting duties to an employee in the fiscal services section.

Internal controls over the trade readjustment act (TRA) and unemployment insurance benefit accounts within Unemployment Insurance Program (CFDA #17.225) are weak because a fiscal services accountant performs incompatible duties. The employee prepares the primary accounting records for these two accounts, writes checks, helps prepare bank deposits, and requests money from the U.S. Treasury. The department needs to separate these incompatible duties or develop mitigating controls to reduce the risk of errors or irregularities. These accounts are not in the state treasury or the statewide accounting system. Instead, all transactions are processed in local bank accounts.

The fiscal service employee performs nearly all TRA accounting duties. She is responsible for recording receipt and disbursement transactions in the accounting records. She also writes checks and prepares the monthly bank reconciliations. There is no independent review of her work to attest to its accuracy. This same accountant also writes manual checks for various unemployment programs and prepares accounting records for the unemployment insurance benefit account. We are not aware of any effective controls to detect unauthorized payments. To improve controls over these two accounts, the department needs to separate the record keeping and check writing functions.

Recommendations

- *The department should separate the trade readjustment act and unemployment insurance benefit account record keeping and check writing functions.*

2. The Department of Economic Security does not have an adequate accounting system for the Disaster Unemployment Assistance Program.

The department does not have an adequate system to account for the Disaster Unemployment Assistance Program (DUA) (CFDA #83.516). It accounts for this program on the existing Unemployment Insurance Benefit System. This combined approach causes difficulty when trying to distinguish DUA transactions from those of the regular unemployment insurance program. Also, the Unemployment Insurance Benefit System does not have specific edits for the DUA program. The department could improve controls by designing an application for special programs like DUA.

The department had not recovered its full federal reimbursement because it had difficulty identifying all DUA transactions. The department failed to seek federal reimbursements totaling \$198,000 because it made errors while extracting DUA payment transactions from the

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unemployment insurance benefit system. The department also collected \$29,000 of ineligible reimbursements because it did not properly account for DUA canceled checks. These canceled checks were commingled with those of the regular Unemployment Insurance Program. The department was not aware of these errors until identified by our audit. After we brought the matter to the department's attention, the department recovered the federal reimbursement of \$164,000 on January 23, 1995. This department is in the process of closing one grant and possibly may recover another \$5,000.

The Unemployment Insurance Benefit System does not have computerized edits for the DUA program. Therefore, employees must manually review claims to ensure compliance with some DUA requirements. For example, federal regulations only allow states to pay DUA benefits for claim weeks which fall within the disaster period. However, the department paid claimants for 61 ineligible weeks, totaling \$6,800, because there are no preventive edits in the Unemployment Insurance Benefit System.

Recommendations

- *The Department of Economic Security needs to develop an accounting system to deliver Disaster Unemployment Assistance.*
- *The department should repay the United States Department of Labor \$6,800 of ineligible payments.*

3. The Department of Economic Security's internal controls over combined wage claim and overpayment receipts need improvement.

Internal controls over combined wage claim receipts within Unemployment Insurance (CFDA #17.225) are weak because the department does not verify the accuracy or completeness of bills sent to, and receipts collected from, other states. Combined wage claims refer to claims where the liability is shared by more than one state. The state paying the combined wage claim benefits must bill the other states for their share of the liability. The state bills other states for their portion of the unemployment liability if claimants worked in other states during the determination period. The department also does not have adequate controls over its combined wage claim and overpayment receipt accounting records. As a result, billing or collection errors could occur and remain undetected.

The department records each state's combined wage claim charges in separate accounts in the Benefit Charging System. Each quarter, a computer application reads these charges and prints bills. After posting the bills to manual accounts receivable ledgers, the department mails them to other states. However, nobody verifies the accuracy of these bills or the amounts posted. The department could improve controls by reconciling the charges recorded in the Benefit Charging System to the bills posted to the accounts receivable records.

Controls over combined wage claim accounts receivable are also weak because the department does not balance its control and subsidiary ledgers. Employees in the combined wage claim unit

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post bills and subsequent receipts to individual subsidiary ledgers for each state. They also post them to an accounts receivable control ledger. The total accounts receivable balance in this control account should agree with the sum of the amounts owed by the individual states.

However, nobody performs this key reconciliation to detect errors. We totaled the amounts owed by individual states and discovered a \$8,165 discrepancy between our total and the balance in the accounts receivable control ledger. Employees eventually reduced this discrepancy to \$530 after correcting mathematical accuracy and posting errors. To prevent future errors, the department needs to reconcile its combined wage claim control account and subsidiary ledgers.

Over the past several years, the department implemented procedures to improve controls over most unemployment insurance receipts, but controls over some smaller receipts types are still weak. For example, the department does not sufficiently control its combined wage claim or benefit overpayment receipts. These two receipt types total approximately \$13 million annually. Employees post detailed receipt transactions to the benefit overpayment system and combined wage claim ledgers. However, there is no independent verification that the sum of these amounts posted agree with the amount deposited by fiscal services. As a result, posting inaccuracies or deposit shortages could occur and remain undetected.

Recommendations

- The department should reconcile charges recorded in the Benefit Charging System to the bills posted to its combined wage claim accounts receivable ledgers.*
- The department should balance its combined wage claim accounts receivable control account and subsidiary ledgers.*
- The department should reconcile the receipts posted to its benefit overpayment system and combined wage claim ledgers to the amounts deposited by the fiscal management section. An independent employee should perform these reconciliations.*

4. The Department of Economic Security is inappropriately subsidizing employee parking.

The Department of Economic Security is inappropriately subsidizing the parking costs for nine spaces reserved for employees in a public parking ramp. The costs are allocated to various state and federal programs. These parking spaces are in addition to the 30 parking spaces within the central office building. Since October, 1993, the department contracted with a firm operating a parking ramp for 11 parking spaces. Nine spaces are available for employees, with two spaces for department visitors. The contract cost for each space is approximately \$1,350 per year. Employees parking in both the central office building and the public ramp paid \$600 per year in parking fees. These parking fees were based on the standard fees charged to state employees working in the capitol complex and not on the costs incurred by the department.

Employees are required to pay the full cost for parking spaces. Based on Minn. Stat. Section 16b.58, Subd. 8, the Department of Administration's (DOA) statewide employee parking policy,

Department of Economic Security

issued in October 1992, states that state agencies will discontinue subsidizing employee parking through the use of agency funds. DOA's employee parking policy provides that all state-owned and nonstate-owned employee parking will be supported by user fees, regardless of employee work shift or employment conditions. This policy requires employees to pay the full cost of parking.

Employees pay the parking fees, via payroll deduction, to the Department of Administration (DOA). Normally, DOA uses the money withheld from employees for maintenance and administrative costs for operating state parking lots. However, for the contract with the privately owned ramp, DOA did not incur any costs for maintenance. DOA advised us that other agencies, with similar arrangements, have recovered the amount withheld through payroll deduction. Economic Security could recover approximately \$5,900 from DOA.

The cost of the contract, approximately \$15,500, was inappropriately included within the agency's indirect costs. This parking contract does not qualify as an eligible cost to be charged to federal grant programs. The department allocated the indirect costs to various programs within the department through the cost accounting system. Most of the indirect costs were allocated to federal programs.

Recommendations

- *The department should cease subsidizing the parking costs of the nine spaces reserved for employees in the private parking ramp.*
- *The department should recover the amount withheld for parking fees paid by employees through payroll deduction (approximately \$5,900) from the Department of Administration.*
- *The department should reimburse its federal programs for the costs of the parking contract.*



Office of the Commissioner

Minnesota Department of Economic Security

Formerly the Department of Jobs and Training

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April 19, 1995

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 30, 1995. Please include this information in your final report.

Recommendation 1

The department should separate the trade readjustment act and unemployment insurance benefit account record keeping and check writing functions.

We agree. We will separate the record keeping and check writing function of the two accounts.

Responsible Individual: John Stavros

Recommendation 2

The Department of Economic Security needs to develop an accounting system to deliver Disaster Unemployment Assistance.

The department should repay the United States Department of Labor \$6,800 of ineligible payments.



James Nobles
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We agree. We have undertaken a project to develop a system. We will use the remaining DUA administrative budget to fund the development costs.

Also, the \$6,800 has been accounted for as overpayments and collection activity is preceding per department procedures.

Responsible Individual: Gary Sorensen

Recommendation 3

The department should reconcile charges recorded in the Benefit Charging System to the bills posted to its combined wage claim accounts receivable ledgers.

The department should balance its combined wage claim accounts receivable control account and subsidiary ledgers.

The department should reconcile the receipts posted to its benefit overpayment system and combined wage claim ledgers to the amounts deposited by the fiscal management section. An independent employee should perform these reconciliations.

We agree. We will work to develop the necessary procedures to accomplish these reconciliations.

Responsible Individual: John Stavros

Recommendation 4

The department should cease subsidizing the parking costs of the nine spaces reserved for employees in the private parking ramp.

The department should recover the amount withheld for parking fees paid by employees through payroll deduction (approximately \$5,900) from the Department of Administration.

The department should reimburse its federal programs for the costs of the parking contract.


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We disagree with this finding.

- o Minnesota Statute, sect. 16b.58, subd. 8 says, ". . . the commissioner shall charge state employees for parking . . ." The statute does not require full cost recovery. The Minnesota Department of Economic Security charges its employees the prescribed Department of Administration garage parking rate (which is double the rate charged to Centennial ramp parkers.)
- o The Department of Administration's parking policy is published at Chapter 1225.0300. That policy does not prohibit subsidies. The "policy" cited by the auditors is not a policy but rather a report from a task force dated October, 1992. The Administration parking policy has not been updated for any of the recommendations contained in that report. Therefore, MDES is in compliance with existing policies.
- o The employees that park in MDES-owned and leased facilities have been assigned parking per our department policy. MDES has determined that these individuals should have proximate parking because their positions may necessitate frequent, unplanned use of their vehicles. This is not a perquisite but rather a facet of assigned job duties.
- o No federal regulations (or OMB circulars) require MDES to charge some employees more than standard, statewide parking rates, nor do federal regulations limit the duties or facilities that can be assigned to individuals.

Responsible Individual: John Stavros

Sincerely,



R. Jane Brown
Commissioner

RJB:mes