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**Department of Labor and Industry  
Statewide Audit - Selected Audit Areas**

**For the Fiscal Year Ended June 30, 1998**

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**January 1999**

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**Financial Audit Division  
Office of the Legislative Auditor  
State of Minnesota**

**99-3**

# SUMMARY

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## Department of Labor and Industry

### Statewide Audit Selected Audit Areas For the Fiscal Year Ended June 30, 1998

Public Release Date: January 22, 1999

No. 99-3

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#### Background

The Department of Labor and Industry is responsible for processing and paying workers' compensation claims resulting from supplemental benefits, second injury responsibilities, and uninsured employers. The claims are paid from the Special Compensation Fund, which is financed from assessments made on employers. The department also collects receipts for various purposes and activities, such as issuing licenses and penalties. Ms. Gretchen Maglich was commissioner of Labor and Industry from December 1997 to December 1998. Mr. Michael Houlston was appointed acting commissioner effective January 4, 1999.

#### Selected Audit Areas and Conclusions

Our audit scope was limited to the financial activities within the Department of Labor and Industry that were material to the State of Minnesota's Comprehensive Annual Financial Report for the fiscal year ended June 30, 1998. Our scope included Special Compensation Fund assessments and claims expenditures. We also examined the estimated liability for future claims reported in the general long-term obligation account group.

We qualified our report, dated December 1, 1998, on the State of Minnesota's Comprehensive Annual Financial Report because insufficient audit evidence exists to support the State of Minnesota's disclosures with respect to the year 2000. Auditing the state's year 2000 compliance efforts was not an objective of this audit. As a result, we do not provide assurance that the Department of Labor and Industry is or will be year 2000 ready, that its year 2000 remediation efforts will be successful in whole or in part, or that parties with which the Department of Labor and Industry does business will be year 2000 ready.

For the areas audited, the Department of Labor and Industry's financial activities were fairly presented in the State of Minnesota's Comprehensive Annual Financial Report for the year ended June 30, 1998. As a result of our procedures, we identified no weaknesses in internal control or instances of noncompliance with finance-related legal provisions, for the items tested.

# **Department of Labor and Industry**

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### **Audit Participation**

The following members of the Office of the Legislative Auditor prepared this report:

Claudia Gudvangen, CPA	Deputy Legislative Auditor
Brad White, CPA, CISA	Audit Manager
Dale Ogren, CPA, CISA	Auditor-In-Charge
Jill Weber	Auditor

### **Exit Conference**

We discussed the results of the audit at an exit conference with the following Department of Labor and Industry staff on January 11, 1999:

Michael Houliston	Acting Commissioner
Cindy Ferrell	Chief Financial Officer
John Kufas	Accounting Officer, Special Compensation Fund
Cindy Valentine	Chief Information Officer
Brandon Miller	Director, Special Compensation Fund

**Department of Labor and Industry**

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STATE OF MINNESOTA  
**OFFICE OF THE LEGISLATIVE AUDITOR**  
JAMES R. NOBLES, LEGISLATIVE AUDITOR

Senator Deanna Wiener, Chair  
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. Michael Houlston, Acting Commissioner  
Department of Labor and Industry

We have performed certain audit procedures at the Department of Labor and Industry as part of our audit of the financial statements of the State of Minnesota as of and for the year ended June 30, 1998. We emphasize that this has not been a comprehensive audit of the Department of Labor and Industry.

Table 1-1 identifies the financial activities within the Department of Labor and Industry that were material to the state's financial statements. We performed certain audit procedures on these Department of Labor and Industry programs as part of our objective to obtain reasonable assurance about whether the State of Minnesota's financial statements are free of material misstatement.

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**Table 1-1  
Department of Labor and Industry  
Programs Material to the State's Financial Statements  
Fiscal Year 1998**

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	<u>Amount</u>
<u>Revenue Areas</u>	
Special Compensation Fund Assessments	\$103,116,000
<u>Expenditure Areas</u>	
Special Compensation Fund Expenditures	\$91,929,000
<u>General Long-Term Obligation Account Group</u>	
Uninsured Employee Claims Payable	\$46,304,000

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Source: State of Minnesota Comprehensive Annual Financial Report and Minnesota Accounting and Procurement System (MAPS) for fiscal year 1998.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

# Department of Labor and Industry

## Conclusions

We qualified our report dated December 1, 1998, on the State of Minnesota's Comprehensive Annual Financial Report, because of uncertainties about the potentially adverse effect the year 2000 computer issue may have on state operations. Information technology experts believe that many computer applications in private businesses and government may fail as a result of data integrity problems and erroneous calculations beyond December 31, 1999. The state is currently addressing year 2000 issues related to its computer systems and other electronic equipment. During fiscal year 1996, the state established the Minnesota Year 2000 Project Office to develop and monitor the overall statewide effort for executive branch agencies. The project office is tracking over 1,300 mission-critical applications owned by state agencies. As of September 1998, the project office believed that 75 percent of the applications were compliant or had completed the necessary modifications. However, because of the unprecedented nature of the year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter.

Similarly, we do not provide assurance that the Department of Labor and Industry is or will be year 2000 ready, that its year 2000 remediation efforts will be successful in whole or in part, or that parties with which the Department of Labor and Industry does business will be year 2000 ready.

In accordance with *Government Auditing Standards*, we have also issued our report, dated December 1, 1998, on our consideration of the State of Minnesota's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

For the areas audited, the Department of Labor and Industry's financial activities were fairly presented in the State of Minnesota's Comprehensive Annual Financial Report for the year ended June 30, 1998. As a result of our procedures, we identified no weaknesses in internal controls or instances of noncompliance with finance-related legal provisions, for the items tested.

This report is intended for the information of the Legislative Audit Commission and the 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 January 22, 1999.

/s/ *James R. Nobles*

James R. Nobles  
Legislative Auditor

/s/ *Claudia J. Gudvangen*

Claudia J. Gudvangen  
Deputy Legislative Auditor

End of Fieldwork: December 1, 1998

Report Signed On: January 14, 1999

## **Department of Labor and Industry**

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### **Status of Prior Audit Issues As of December 1, 1998**

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**February 12, 1998, Legislative Audit Report 98-5** examined the department's activities and programs material to the State of Minnesota's Annual Financial Report for the year ended June 30, 1997. The scope included special compensation fund revenues, expenditures, and the general long-term obligation.

The report identified one issue concerning the inconsistent staff calculation of general long-term obligation estimates. The Department of Labor and Industry resolved the issue by implementing a new computerized system which estimates the funds' financial liability for uninsured injured workers.

#### **State of Minnesota Audit Follow-Up Process**

The Department of Finance, on behalf of the Governor, maintains a quarterly process for following up on issues cited in financial audit reports issued by the Legislative Auditor. The process consists of an exchange of written correspondence that documents the status of audit findings. The follow-up process continues until Finance is satisfied that the issues have been resolved. It covers entities headed by gubernatorial appointees, including most state agencies, boards, commissions, and Minnesota state colleges and universities. It is not applied to audits of the University of Minnesota, any quasi-state organizations, such as the Metropolitan agencies or the State Agricultural Society, the state constitutional officers, or the judicial branch.