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OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

FINANCIAL AUDIT DIVISION REPORT

Department of Employment and Economic Development

Federal Compliance Audit

Year Ended June 30, 2009

March 18, 2010 **Report 10-10**

FINANCIAL AUDIT DIVISION
Centennial Building – Suite 140
658 Cedar Street – Saint Paul, MN 55155
Telephone: 651-296-4708 • Fax: 651-296-4712
E-mail: auditor@state.mn.us • Web site: http://www.auditor.leg.state.mn.us
Through Minnesota Relay: 1-800-627-3529 or 7-1-1

OLA
OFFICE OF THE LEGISLATIVE AUDITOR
State of Minnesota • James Nobles, Legislative Auditor

March 18, 2010

Senator Ann H. Rest, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. Dan McElroy, Commissioner
Department of Employment and Economic Development

This report presents the results of our audit of certain federal financial assistance programs administered by the Department of Employment and Economic Development during fiscal year 2009. We conducted this audit as part of our audit of the state's compliance with federal program requirements. We emphasize that we did not conduct a comprehensive audit of the Department of Employment and Economic Development.

We discussed the results of the audit with the department's staff at an exit conference on March 3, 2010. The audit was conducted by Brad White, CPA, CISA, CFE, (Audit Manager) and Joan Haskin, CPA, CISA, (Auditor-in-Charge), assisted by auditors Tyler Billig, Thomas Derus, Pat Ryan, Blake Schwagel, Paul Thompson, and Emily Wiant.

This report is intended for the information and use of the Legislative Audit Commission and the management of the Department of Employment and Economic Development. This restriction is not intended to limit the distribution of this report, which was released as a public document on March 18, 2010.

We received the full cooperation from the department's staff while performing this audit.

/s/ James R. Nobles

James R. Nobles
Legislative Auditor

/s/ Cecile M. Ferkul

Cecile M. Ferkul, CPA, CISA
Deputy Legislative Auditor

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Report Summary

Conclusion

The Department of Employment and Economic Development generally complied with and had controls to ensure compliance with provisions of laws, regulations, contracts, and grants applicable to the major federal programs we audited for fiscal year 2009. However, the department had weaknesses, as noted in the nine findings presented in this report, including three repeat findings from last year's audit that it did not fully resolve.

Findings

- Prior Finding Partially Resolved: The department did not identify and document its internal controls to ensure compliance with federal requirements. (Finding 1, page 5)
- The department did not detect errors on the Schedule of Expenditures of Federal Awards for the federal Unemployment Insurance program. (Finding 2, page 6)
- The department did not review system reports designed to identify possible fraudulent Unemployment Insurance benefits and employer tax filings. (Finding 3, page 7)
- Prior Finding Partially Resolved: The department did not ensure that unemployment benefit payments were always appropriately assigned to employer accounts. (Finding 4, page 8)
- The department did not send amended unemployment determination notices to some applicants and employers. (Finding 5, page 9)
- The department allowed some employees to have unnecessary or incompatible access to the state's accounting system. (Finding 6, page 10)
- The department did not adequately monitor overtime hours paid to an employee and it did not accurately calculate a severance payment for one employee. (Findings 7 and 8, page 11)
- Prior Finding Partially Resolved: The department did not remove or protect client names it inappropriately entered in the state's accounting system in prior years. (Finding 9, page 12)

Audit Scope

Programs material to the State of Minnesota's financial statements and federal program compliance for fiscal year 2009, including Unemployment Insurance, Workforce Investment Act Cluster, and Vocational Rehabilitation.

Department of Employment and Economic Development

Federal Program Overview

The Department of Employment and Economic Development administered federal programs that we considered major federal programs for the State of Minnesota, subject to audit under the federal Single Audit Act.[1] Table 1 identifies these major federal programs.

Table 1
Audited Federal Programs Administered by the Department of Employment and Economic Development
Fiscal Year 2009
(in thousands)

CFDA[1]	Program Name	Federal Expenditures	Federal ARRA[3] Expenditures
17.225	Unemployment Insurance[2]	$1,720,972	$ 191,314
	Vocational Rehabilitation Cluster:[1]		
84.126	Vocational Rehabilitation Grants to States	$ 49,892	$ 0
84.390	Vocational Rehabilitation Grants to States, Recovery Act	$ 0	$ 67
	Total Vocational Rehabilitation Cluster	$ 49,892	$ 67
	Workforce Investment Act Cluster:[1]		
17.260	Workforce Investment Act-Dislocated Worker	$ 17,878	$ 3,197
17.259	Workforce Investment Act-Youth	11,787	2,437
17.258	Workforce Investment Act-Adult	9,461	300
	Total Workforce Investment Act Cluster	$ 39,126	$ 5,934

[1]The Catalog of Federal Domestic Assistance (CFDA) is a unique number assigned by the federal government to identify its programs. Some federal programs are clustered if they have similar compliance requirements. Although the programs within a cluster are administered as separate programs, they are treated as a single program for the purpose of meeting the audit requirements of the U.S. Office of Management and Budget's Circular A-133.

[2]Expenditures include unemployment insurance benefits and about $47 million of federal administrative reimbursements.

[3]American Recovery and Reinvestment Act.

Source: Department of Employment and Economic Development's accounting system for fiscal year 2009.

[1] We defined a major federal program for the State of Minnesota in accordance with a formula prescribed by the federal Office of Management and Budget as a program or cluster of programs whose expenditures for fiscal year 2009 exceeded $30.1 million.

Objective, Scope, and Methodology

The objective of our audit was to determine whether the Department of Employment and Economic Development complied with federal program requirements in its administration of these federal programs for fiscal year 2009. This audit is part of our broader federal single audit objective to obtain reasonable assurance about whether the State of Minnesota complied with the types of compliance requirements that are applicable to each of its federal programs.[2] In addition to specific program requirements, we examined the department's general compliance requirements related to federal assistance, including its cash management practices. We also followed up on findings and recommendations reported to department management in our previous audit.[3]

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States of America and with the U.S. Office of Management and Budget's *Circular A-133 Compliance Supplement.*

Conclusion

The Department of Employment and Economic Development generally complied with and had controls to ensure compliance with certain provisions of laws, regulations, contracts, and grants applicable to its major federal programs for fiscal year 2009. However, the department had some weaknesses, as noted in the following *Findings and Recommendations* section, including three repeat findings from last year's audit that it did not fully resolve.

We will report these weaknesses to the federal government in the *Minnesota Financial and Compliance Report of Federally Assisted Programs*, prepared by the Department of Management and Budget. This report provides the federal government with information about the state's use of federal funds and its compliance with federal program requirements. The report includes the results of our audit work, conclusions on the state's internal controls over and compliance with federal programs, and findings about control and compliance weaknesses.

[2] The State of Minnesota's single audit is an entity audit of the state that includes both the financial statements and the expenditures of federal awards by all state agencies. We issued an unqualified audit opinion, dated December 11, 2009, on the State of Minnesota's basic financial statements for the year ended June 30, 2009. In accordance with *Government Auditing Standards*, we also issued our report on our consideration of the State of Minnesota's internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts, and grants. (Office of the Legislative Auditor's Financial Audit Division Report 10-01, *Report on Internal Control Over Financial Reporting*, issued February 11, 2010.) This report included control deficiencies related to the Department of Employment and Economic Development.

[3] Office of the Legislative Auditor's Financial Audit Division Report 09-09, *Department of Employment and Economic Development*, issued March 26, 2009.

Findings and Recommendations

Finding 1

Prior Finding Partially Resolved: The Department of Employment and Economic Development did not identify and document its internal controls to ensure compliance with federal requirements.[4]

The department did not have a comprehensive risk assessment identifying its internal controls over compliance with federal single audit requirements. As a result, the department has an increased likelihood of a control deficiency if it does not clearly communicate to all staff its risks, control activities, and monitoring policies and procedures. In response to a prior year's finding, the department established an internal audit function that recently developed a risk assessment over federal compliance. However, department management had not yet reviewed and approved the assessment and had not collaborated on strategies to ensure that the designed controls are effective and monitored.

State policy details that each agency head has the responsibility to identify, analyze, and manage business risks that impact an entity's ability to maintain its financial strength and the overall quality of its products and government services.[5] This policy also requires communication of the internal control policies and procedures to all staff so they understand what is expected of them and the scope of their freedom to act. Follow-up procedures are also required per this policy and, at a minimum, should include ways to monitor results and report significant control deficiencies to individuals responsible for the process or activity involved, including executive management and those individuals in a position to take corrective action. The federal government expects management to take responsibility for effective internal controls over its financial operations and compliance with federal program requirements.

Findings 2 through 9 identify specific deficiencies in the agency's internal control procedures that resulted in noncompliance with federal requirements or increased risk of misspending federal money. These deficiencies created a risk of noncompliance or did not detect or prevent noncompliance from occurring. In addition, the department had some control deficiencies that resulted in an error in a required financial report for Unemployment Insurance (CFDA 17.225), and allowed it to submit eight Unemployment Insurance (CFDA 17.225) reports from 3 to 30 days late, and one Vocational Rehabilitation (CFDA 84.126) report 8 days past the required federal deadline.

If the department had a comprehensive internal control structure, it should have identified these deficiencies, assessed the degree of risk of these deficiencies,

[4] The finding applies to all federal grant awards for programs listed in Table 1 to the report.
[5] Department of Management and Budget Policy 0102-01.

designed control procedures to address significant risks, and monitored whether controls were working as designed and effective in reducing the risks to an acceptably low level.

Recommendation

- *The department should continue to review and clearly document its risks, control activities, and internal control monitoring functions for its key business practices ensuring compliance with federal requirements.*

Finding 2

The department did not detect errors made on the Schedule of Expenditures of Federal Awards for the federal Unemployment Insurance program.

The department did not coordinate accurate program expenditures with the Department of Management and Budget. The initial Schedule of Expenditures of Federal Awards did not correctly distinguish between regular Unemployment Insurance expenditures (CFDA 17.225[6]) and American Recovery and Reinvestment Act expenditures for the state's Unemployment Insurance program (CFDA 17.225A[7]). The schedule overstated the regular Unemployment Insurance expenditures by about $143.5 million and understated the related federal American Recovery and Reinvestment Act expenditures by the same amount. Although the department properly tracked the American Recovery and Reinvestment Act Unemployment Insurance expenditures, it did not review a later draft of the schedule and did not identify that the Department of Management and Budget used incorrect amounts.

Recommendation

- *The department should improve its internal controls to ensure the accurate reporting of federal Unemployment Insurance program and related American Recovery and Reinvestment Act expenditures on the Schedule of Expenditures of Federal Awards.*

[6] Federal Grant #UI-16754-08-55-A-27 (Unemployment Insurance Administration, Emergency Compensation, and Trade Benefits); however, federal grant numbers are not used for Unemployment Insurance benefits.

[7] Federal Grant #UI-18028-09-55-A-27 (Unemployment Insurance Administration and Emergency Compensation); however, federal grant numbers are not used for other ARRA Unemployment Insurance benefits.

The department did not review system reports designed to identify possible fraudulent Unemployment Insurance benefits and employer tax filings.

Finding 3

The department's information system for the Unemployment Insurance (CFDA 17.225[8]) program relies on information submitted by benefit applicants and employers to determine benefit and tax amounts and to send them their money. The department designed some reports to identify data anomalies that may indicate fraud. However, department staff did not generate and review key exceptions identified in these reports, including the following:

- Applicant Bank Data – The department did not investigate whether applicants sharing bank accounts indicated fraud. While the department had identified this as a possible indication of fraud and had designed a report to identify these applicants, it had not developed a strategy to follow through or investigate these applicants for potential fraud. The report could be a way to detect perpetrators of unemployment applicant fraud using identity theft. Using the report's data, we noted several instances where unemployment benefits for three or more applicants were paid into the same bank accounts as shown on Table 2.

Table 2
Unemployment Benefits Paid into the Same Bank Accounts
July 1, 2008, to June 30, 2009

Number of Applicants Depositing into a Single Bank Account	Number of Occurrences	Number of Applicants Involved	Unemployment Benefits Paid
3	53	159	$ 636,591
4	15	60	298,647
5	2	10	37,287
6	1	6	11,523
7	1	7	49,815
8	1	8	7,933
9	0	0	0
10	1	10	45,648
11	1	11	49,292
12	0	0	0
13	1	13	84,942
Total	76	284	$1,221,678

Source: Department of Employment and Economic Development, Unemployment Insurance System.

- Employer Tax Rates - The department did not use a report it designed to detect employers manipulating employee wage data to avoid paying their full share of unemployment taxes. The report identifies possible

[8] Federal grant numbers are not used for Unemployment Insurance benefits.

inappropriate shifts in employee wage detail data filed by employers that the department should review. The review could determine whether the employer was shifting employees to cause lower tax rates and avoid paying required Unemployment Insurance taxes. The federal government required[9] states to enact laws[10] prohibiting employer fraud through actions that avoid taxes. Since the department did not review the report it designed to identify these practices, there is an increased risk that employer tax fraud will not be detected and brought to the attention of department management. In addition, the department did not have a process to identify and review transfers of wage detail and unemployment benefits between predecessor and successor employer accounts resulting from certain employer mergers or acquisitions. Because employer tax rate calculations are based, in part, on historic wage and benefit data, a review is necessary to avoid errors resulting in an understatement of an employer's future unemployment tax rate.

Recommendation

- *The department should improve internal controls that prevent and detect Unemployment Insurance fraud, including:*
  - -- *investigating applicant benefits being deposited into the same bank accounts; and*
  - -- *reviewing system employer account data for indications of employer tax avoidance schemes and accuracy of transfers of wage and benefit data between employer accounts.*

Finding 4

Prior Finding Partially Resolved: The department did not ensure that unemployment benefit payments were always appropriately assigned to employer accounts.

The department did not ensure the propriety of the determination not to assign some Unemployment Insurance (CFDA #17.225[11]) benefits to employers' accounts. The Unemployment Insurance System uses the benefits to determine tax rate for most employers, or to request reimbursement for the benefits from certain types of employers.[12] When the department does not properly assign unemployment benefits to an employer, the system understates the employer's tax rate or does not obtain reimbursement for the benefits. In response to this finding in our prior audit report, the department made some changes to the Unemployment Insurance System in April 2009 to address these concerns; however, 3 of the 18

[9] Public Law 108-295, Federal SUTA (State Unemployment Tax Act) Dumping Prevention Act of 2004.
[10] *Minnesota Statutes* 2009, 268.051.
[11] Federal grant numbers are not used for Unemployment Insurance benefits.
[12] Certain nonprofit, governmental, and tribal organizations may choose to reimburse the Unemployment Insurance Fund for benefits paid rather than pay an unemployment tax.

unassigned benefits we tested after the department made the system changes were in error and should have been assigned to an employer.

State statutes generally require the department to use unemployment benefits paid to determine an employer's tax rate, but also include a number of exceptions to that general rule.[13] For example, an employer's tax rate would not be affected by federally funded extended benefits paid to an applicant or unemployment benefits determined to be an overpayment.

When the Unemployment Insurance System pays benefits, it either assigns the benefits to an employer or identifies the benefit as not assignable. When questions or appeals arise, department employees obtain additional information from benefit recipients and employers that may result in a change to whether the system either does or does not assign the benefits to an employer. The complexity of the statutory provisions and judgments made by department employees increased the risk that information in the system may result in the system inappropriately not assigning benefits to an employer. For fiscal year 2009, the total unemployment benefits not assigned to employers' accounts were $176.6 million.

Recommendation

- *The department should review benefits not assigned to employers and correct any incorrect determinations found. It should also develop a process to monitor the propriety of unemployment benefit payments that are not assigned to employer accounts.*

Finding 5

The department did not send amended unemployment determination notices to some applicants and employers.

The Unemployment Insurance (CFDA 17.225[14]) System failed to identify whether it generated and sent about 3,400 benefit redetermination notifications to affected applicants and employers. *Minnesota Statutes* requires a legal notification called the 'determination of benefit account' to identify the amount of unemployment benefits and also requires prompt notification if the department amends that determination.[15] The department could not explain why the Unemployment Insurance System's database showed it did not generate the required correspondence and could not confirm to us whether the notifications had been sent. In addition to alerting the recipient to a change in their benefits, these notifications serve as a key control to allow the recipient or employer the ability to appeal the determination or question possible errors or fraud.

[13] *Minnesota Statutes* 2009, 268.047.
[14] Federal grant numbers are not used for Unemployment Insurance benefits.
[15] *Minnesota Statutes* 2009, 268.07.

Recommendation

- *The department should ensure that applicants and employers receive notification of amended unemployment benefit determinations in compliance with statutes.*

Finding 6

The department allowed some employees to have unnecessary or incompatible access to the state's accounting system.[16]

Several of the department's employees had the following unnecessary or incompatible access:

- As of December 2009, the department was unaware that the Department of Management and Budget had not processed security changes for several employees that the department had submitted in April 2009. The department had not monitored periodic security reports to confirm whether requested changes were made.

- The department had 15 employees with access to the encumbering and receiving functions in the state's accounting system that the Department of Management and Budget had defined as incompatible access. The Department of Management and Budget's internal control policy[17] requires separation of incompatible duties so no one employee has too much control over a financial transaction or process and its security policy[18] specifies separation of encumbering and receiving functions. The policy allows alternative mitigating controls if an agency cannot separate those functions; however, the department did not have written procedures outlining its mitigating procedures.

Allowing employees to have inappropriate access to business systems or to perform incompatible functions increased the risk that errors or fraud could occur without detection and compromised the integrity of financial transactions for federal expenditures.

Recommendation

- *The department should eliminate unnecessary or incompatible access to the state's accounting system. If it allows incompatible access, the department should ensure that controls are effectively designed to mitigate the risk of error or fraud.*

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[16] The finding applies to all federal grant awards for programs listed in Table 1 to the report.
[17] Department of Management and Budget Policy 0102-01.
[18] Department of Management and Budget Policy 1101-07.

The department did not always adequately monitor overtime hours worked as required by its policy; it allowed one employee to incur overtime in excess of the hours authorized.

Finding 7

The department did not ensure that its supervisors limited employee use of overtime to authorized amounts for one of ten employees tested. From April to June 2009, the department paid the employee 71 hours more in overtime than the 240 hours the supervisor had authorized. The employee incurred the overtime to coordinate conferences for some programs including the federal Workforce Investment Act (CFDA 17.258, 17.259, 17.260[19]). The department's policy for overtime states that supervisors are responsible to monitor any overtime hours worked employees and to verify that the number of hours of overtime worked does not exceed the number of hours authorized.[20] For the year, the employee earned $21,961 for 829 overtime hours. The department paid a total of $1.6 million in overtime compensation to employees in fiscal year 2009.

Recommendation

- *The department should ensure that overtime hours worked do not exceed the number of hours authorized.*

The department did not accurately calculate a severance payment for one employee.

Finding 8

For one of eight severance payments we tested, the department did not accurately calculate the severance paid upon separation from state service. The error resulted in an underpayment of $3,061 to the employee and a liability for the Unemployment Insurance program (CFDA 17.225[21]). The applicable bargaining agreement provided the employee with 40 percent of the unused sick leave balance if they met certain severance qualifications.[22] However, the department manually miscalculated the severance payoff by 100 hours. While the department stated that it had a review process for severance calculations, the reviewer did not discover the calculation error.

Recommendations

- *The department should ensure that it accurately calculates severance payments in compliance with applicable bargaining agreements.*

- *The department should pay the employee the additional $3,061 severance owed.*

[19] Federal Grant #AA-17129-08-55-A-27.
[20] Department of Employment and Economic Development Policy PPM201.
[21] Federal Grant #UI-16754-08-55-A-27, #UI-18028-09-55-A-27.
[22] Minnesota Association of Professional Employees, article 13, section 1.

Finding 9

Prior Finding Partially Resolved: The department did not remove or protect client names it inappropriately entered in the state's accounting system in prior years.

The department had not removed or protected Vocational Rehabilitation (CFDA 84.126[23]) client names it had previously entered into the state's accounting system. Because department staff entered this data into unprotected fields, the not public data could be viewed by anyone with access to the transactions on the state's information warehouse. In fiscal year 2009, the department stopped entering this information into the state's accounting system; however, it had not removed prior years' client information in the state's information warehouse. State statutes define 'not public' data as any government data that is classified by statute, federal law, or temporary classification as confidential, private, nonpublic, or protected nonpublic.[24] In addition, state policy specifically instructs state agencies to not include names and other not public data in the state's accounting system.[25]

Recommendation

- *The Department of Employment and Economic Development should work with the Department of Management and Budget to remove or protect client names that were included in the state's accounting system in prior years.*

[23] Federal Grant #H390A090032, # H390A090033, #H126A090032B, #H126A090033B, #H126A080032D, #H126A080033D.
[24] *Minnesota Statutes* 2009, 13.791, 268A.05.
[25] Department of Management and Budget Policy 0803-01.

Department of Employment and Economic Development

March 11, 2010

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

Dear Mr. Nobles:

Thank you for the opportunity to respond to the findings and recommendations related to the audit on selected federal programs awarded to the Department of Employment and Economic Development (DEED) for the year ended June 30, 2009.

Audit Finding 1: Prior Finding Partially Resolved: The department did not identify and document its internal controls to ensure compliance with federal requirements.

Recommendation:

- *The department should continue to review and clearly document its risks, control activities, and internal control monitoring functions for its key business practices ensuring compliance with federal requirements.*

Response: The department agrees with the finding and recommendation. During fiscal year 2010, the department established an internal control function. A written document has been developed which outlines the risks, related controls, and recommendations to improve controls over compliance. This document will be reviewed by management and strategies will be developed to address the identified risks. In addition, a monitoring plan will be developed to obtain reasonable assurance that the controls are working as intended. Cindy Farrell, Chief Financial Officer, will oversee the completion of these activities by June 30, 2010.

Audit Finding 2: The department did not detect errors made on the Schedule of Expenditures of Federal Awards for the federal Unemployment Insurance program.

Recommendation:

- *The department should improve its internal controls to ensure the accurate reporting of federal Unemployment Insurance program and related American Recovery and Reinvestment Act expenditures on the Schedule of Expenditures of Federal Awards.*

Response: The department agrees with the finding and recommendation. The error occurred when the schedule was incorrectly adjusted and the department did not detect this. The department will develop a more formalized review procedure to ensure the accuracy of information reported to Minnesota Management and Budget (MMB). Cindy Farrell, Chief Financial Officer, will oversee the development of this procedure by May 31, 2010.

Audit Finding 3: The department did not review system reports designed to identify possible fraudulent Unemployment Insurance benefits and employer tax filings.

Recommendation:

- *The department should improve internal controls that prevent and detect Unemployment Insurance fraud, including:*
  -- investigating applicant benefits being deposited into the same bank accounts; and
  -- reviewing system employer account data for indications of employer tax avoidance schemes and accuracy of transfers of wage and benefit data between employer accounts.

Response: The department partially agrees with the findings and the recommendations. In regards to applicant banking data, the identified report had been analyzed in the past. Based on that analysis, it was determined that the report was not in a viable format to provide useful information. The report identified many legitimate payments of benefits to multiple family members using the same bank account, as well as legitimate financial institutions used by applicants without bank accounts. DEED has since developed a more refined report that will address the auditor's specific concerns. It is important to note that this is only one of many controls that the UI program has in place to deter and detect applicant fraud.

In regards to employer account data, DEED uses two reports to identify potential tax avoidance schemes. While each report is unique, the results of the two reports overlap considerably. During the audit period, the UI program regularly reviewed one of the two reports. Largely due to an increased work load resulting from these difficult economic times, the other report was not consistently reviewed. DEED is in the process of adding staff that will, among other things, ensure that reports are reviewed regularly. Since employer tax rates are based on an experience rating period covering four years, any necessary adjustments discovered during these reviews can still be processed without any risk to the integrity of employer tax rates. Kathy Nelson, Unemployment Insurance Director, will oversee the resolution of this finding by June 30, 2010.

Audit Finding 4: Prior Finding Partially Resolved: The department did not ensure that unemployment benefit payments were always appropriately assigned to employer accounts.

Recommendation

- *The department should review benefits not assigned to employers and correct any incorrect determinations found. It should also develop a process to monitor the propriety of unemployment benefit payments that are not assigned to employer accounts.*

Response: The department agrees with the finding and the recommendation. Although most of the issues from the prior audit finding have been resolved, DEED does still have some work remaining to help detect benefit charges which have not been properly assigned. Kathy Nelson, Unemployment Insurance Director, will oversee the resolution of this finding by June 30, 2010.

Audit Finding 5: The department did not send amended unemployment determination notices to some applicants and employers.

Recommendation:

- *The department should ensure that applicants and employers receive notification of amended unemployment benefit determinations in compliance with statutes.*

Response: The department partially agrees with the finding and the recommendation. The 3,400 benefit redetermination notifications mentioned in the finding was a preliminary assessment. Upon subsequent review of the 739,447 initial monetary determinations and redeterminations required to be mailed to applicants and employers, it was determined that only 383 were not sent. Additional controls have been identified and implemented effective March 10, 2010 to address the scenario that was causing this to occur. The department considers this finding to be resolved.

Audit Finding 6: The department allowed some employees to have unnecessary or incompatible access to the state's accounting system.

Recommendation:

- *The department should eliminate unnecessary or incompatible access to the state's accounting system. If it allows incompatible access, the department should ensure that controls are effectively designed to mitigate the risk of error or fraud.*

Response: The department partially agrees with the finding and the recommendation. DEED has since followed up with Minnesota Management and Budget and the security changes requested in April of 2009 have been processed. The department does perform a thorough review of security profiles for both the MAPS and SEMA4 systems on an annual basis. If this problem had not been identified by the auditors, it would have been detected through that process. However, DEED is now reviewing the security reports more frequently to confirm that any change request submitted to MMB is processed in a timely manner.

The department disagrees that there were 15 individuals with incompatible access to the state's accounting system. Although these individual's security profiles allowed them to perform both encumbering and receiving functions, the mitigating control in place was that they could not process payments thereby adequate separation of duties had been maintained. The department agrees that this mitigating control was not documented. However, upon subsequent review of these individuals, it has been determined that the ability to perform the receiving function was unnecessary so it has been removed from their security profiles. The department considers this finding to be resolved.

Audit Finding 7: The department did not always monitor overtime hours worked as required by its policy; it allowed one employee to incur overtime in excess of the hours authorized.

Recommendation:

- *The department should ensure that overtime hours worked do not exceed the number of hours authorized.*

Response: The department agrees with the finding and the recommendation. During fiscal year 2009, DEED updated its policy regarding overtime to ensure that prior approvals are obtained and documented. That policy does require supervisors to ensure that overtime worked does not exceed authorized amounts. The issue identified by the auditor appears to be an isolated incident resulting from an employee transferring between supervisors. Cindy Farrell, Chief Financial Officer, will remind supervisors of their responsibilities for managing overtime by March 31, 2010.

Audit Finding 8: The department did not accurately calculate a severance payment for one employee.

Recommendations:

- *The department should ensure that it accurately calculates severance payments in compliance with applicable bargaining agreements.*
- *The department should pay the employee the additional $3,061 severance owed.*

Response: The department agrees with the finding and the recommendations. Most severance calculations are automatically done through the payroll system. The issue identified by the auditor had some unique circumstances that required a manual calculation. This calculation was erroneous and resulted in an underpayment of $3,061. This was corrected and paid to the employee's medical savings account on February 2, 2010. In the future, any manual calculations will be better documented and more thoroughly reviewed by the supervisor. The department considers this finding to be resolved.

Audit Finding 9: Prior Finding Partially Resolved: The department did not remove or protect client names it inappropriately entered in the state's accounting system in prior years.

Recommendation:

- *The Department of Employment and Economic Development should work with the Department of Management and Budget to remove or protect client names that were included in the state's accounting system in prior years.*

Response: The department agrees with the finding and the recommendation. DEED has had several discussions with MMB regarding the need to protect private client data that is contained in the state's information warehouse. This information is currently available to all state agency users that have access to the expenditure table in the information warehouse. MMB is currently working on a modification to the information warehouse security that would limit agency user access to data from their own agency. Cindy Farrell, Chief Financial Officer, will continue to work with MMB to ensure this modification is implemented by June 30, 2010.

If you have any questions or need additional information please contact Cindy Farrell at 651-259-7085 or Cindy.Farrell@state.mn.us.

Sincerely,

Dan McElroy

Dan McElroy
Commissioner