



**OFFICE OF THE LEGISLATIVE AUDITOR**  
STATE OF MINNESOTA

**FINANCIAL AUDIT DIVISION REPORT**

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**Department of Employment  
and Economic Development**

**Federal Compliance Audit**

**Year Ended June 30, 2015**

**March 24, 2016**

**Report 16-11**

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FINANCIAL AUDIT DIVISION  
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## Financial Audit Division

The Financial Audit Division annually audits the state's financial statements and, on a rotating schedule, audits agencies in the executive and judicial branches of state government, three metropolitan agencies, and several "semi-state" organizations. The division has a staff of about 30 auditors, most of whom are CPAs. The division conducts audits in accordance with standards established by the American Institute of Certified Public Accountants and the Comptroller General of the United States.

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## Conclusion on Internal Controls

The Financial Audit Division bases its conclusion about an organization's internal controls on the number and nature of the control weaknesses we found in the audit. The three possible conclusions are as follows:

<b>Conclusion</b>	<b>Characteristics</b>
<b>Adequate</b>	<b>The organization designed and implemented internal controls that effectively managed the risks related to its financial operations.</b>
<b>Generally Adequate</b>	<b>With some exceptions, the organization designed and implemented internal controls that effectively managed the risks related to its financial operations.</b>
<b>Not Adequate</b>	<b>The organization had significant weaknesses in the design and/or implementation of its internal controls and, as a result, the organization was unable to effectively manage the risks related to its financial operations.</b>

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## OFFICE OF THE LEGISLATIVE AUDITOR

STATE OF MINNESOTA • James Nobles, Legislative Auditor

March 24, 2016

Representative Sondra Erickson, Chair  
Legislative Audit Commission

Members of the Legislative Audit Commission

Ms. Katie Clark Sieben, Commissioner  
Department of Employment and Economic Development

This report presents the results of our audit of the Unemployment Insurance program, ARRA – Unemployment Insurance, and the Rehabilitation Services – Vocational Rehabilitation Grants to States program, which were major federal programs for the State of Minnesota for fiscal year 2015. We conducted this audit as part of our audit of the state’s compliance with federal program requirements. This was not a comprehensive audit of the Department of Employment and Economic Development.

This audit was conducted by Scott Tjomsland, CPA, CISA (Audit Director); Pat Ryan (Auditor-in-Charge); and Tracia Polden (Senior Auditor).

We received the full cooperation of the department’s staff while performing this audit.

Handwritten signature of James R. Nobles in black ink.

James R. Nobles  
Legislative Auditor

Handwritten signature of Cecile M. Ferkul in black ink.

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 internal controls to ensure compliance with certain provisions of laws, regulations, contracts, and grants applicable to its major federal programs for fiscal year 2015. However, the department had an internal control weakness and noncompliance, as discussed in Finding 1.

## Finding

The Department of Employment and Economic Development did not have adequate internal controls to ensure it developed individualized plans for employment for participants in the Rehabilitation Services – Vocational Rehabilitation Grants program within the required timeframe. (Finding 1, page 5)

## Audit Scope

Our scope included programs we determined to be major federal programs for the State of Minnesota for fiscal year 2015, including Unemployment Insurance, ARRA – Unemployment Insurance, and Rehabilitation Services – Vocational Rehabilitation Grants.

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## Department of Employment and Economic Development

### Federal Program Overview

The Department of Employment and Economic Development administered three federal programs (Unemployment Insurance, CFDA 17.225;<sup>1</sup> ARRA – Unemployment Insurance, CFDA 17.225; and Rehabilitation Services – Vocational Rehabilitation Grants, CFDA 84.126) that we considered major federal programs for the State of Minnesota, subject to audit under the federal Single Audit Act.<sup>2</sup> Table 1 shows the fiscal year 2015 expenditures for these major federal programs.<sup>3</sup>

**Table 1**  
**Department of Employment and Economic Development**  
**Major Federal Programs**  
**Fiscal Year 2015**  
**(in thousands)**

<u>CFDA</u> <sup>1</sup>	<u>Program Name</u>	<u>Federal Expenditures</u>
17.225	Unemployment Insurance	\$764,710
17.225	ARRA – Unemployment Insurance <sup>2</sup>	\$1,626
84.126	Rehabilitation Services – Vocational Rehabilitation Grants	\$55,051

<sup>1</sup> The Catalog of Federal Domestic Assistance (CFDA) is a unique number assigned by the federal government to identify its programs.

<sup>2</sup> ARRA refers to the American Recovery and Reinvestment Act of 2009. For the Unemployment Insurance program, ARRA provided funding for expanding unemployment compensation coverage and additional funding for costs incurred administering the unemployment insurance program.

Source: 2015 Schedule of Expenditures of Federal Awards, prepared by the Department of Management and Budget.

The Unemployment Insurance program provides benefits to unemployed workers for periods of involuntary unemployment and to help stabilize the economy by maintaining the spending power of workers while they are between jobs.

<sup>1</sup> The Catalog of Federal Domestic Assistance (CFDA) is a unique number assigned by the federal government to identify its programs.

<sup>2</sup> 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 2015 exceeded \$30 million.

<sup>3</sup> Federal grant award numbers for Unemployment Insurance: UI-26542-15-55-A-27 and UI-25212-14-55-A-27; Federal grant award numbers for Vocational Rehabilitation Grants: H126A150032-15D, H126A150033-15D, H126A140032-14C, and H126A140033-14C.

The Rehabilitation Services – Vocational Rehabilitation Grants program provides the department with federal money to assist in the assessment, planning, development and delivery of vocational rehabilitation services for individuals with disabilities so they may prepare for employment.

## **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 2015. 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. In addition to specific program requirements, we examined the department's general compliance requirements related to federal assistance, including its cash management practices.

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 internal controls to ensure compliance with certain provisions of laws, regulations, contracts, and grants applicable to its major federal programs for fiscal year 2015. However, the department had an internal control weakness and noncompliance, as discussed in Finding 1 in the following *Finding and Recommendation* section.

We will report this weakness and noncompliance to the federal government in the *Minnesota Financial and Compliance Report on 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 internal control and compliance weaknesses.

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## Finding and Recommendation

**The Department of Employment and Economic Development did not have adequate internal controls to ensure it developed individualized plans for employment for participants in the Rehabilitation Services – Vocational Rehabilitation Grants program within the required timeframe.**

### Finding 1

The department did not always develop individualized plans for employment<sup>4</sup> for program participants within 90 days of determining the participants were eligible for services provided through the Rehabilitation Services – Vocational Rehabilitation Grants program (CFDA 84.126.) This new federal requirement was effective starting in July 2014.

The federal requirement stated, *“The individualized plan for employment shall be developed as soon as possible, but not later than a deadline of 90 days after the date of the determination of eligibility...unless the designated State unit and the eligible individual agree to an extension of that deadline to a specific date....”*<sup>5</sup>

Since July 2014, when the 90-day requirement became effective, the department determined 6,634 individuals were eligible to participate in the program. We found that the department had not developed an individualized plan for employment for 1,527 (23 percent) of those individuals within 90 days of them becoming eligible. For 1,388 of those individuals, the department had developed a plan after the 90-day limit.<sup>6</sup>

We reviewed case information for a sample of 22 of the 1,388 program participants that had individualized plans for employment completed more than 90 days after the department determined they were eligible. Our testing did not find documentation of agreements to extend the deadline to a specific date beyond the 90 days for any program participants in our sample. Without an effective method to track the timing of the development of the individualized plans for employment, the department risks providing services to individuals whose eligibility may no longer be valid.

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<sup>4</sup> An individualized plan for employment is a written document signed by both the program participant and a department vocational rehabilitation counselor. Those plans include descriptions of the specific employment outcome chosen for the participant and the vocational rehabilitation services needed to achieve that outcome.

<sup>5</sup> 29 U.S. Code, sec. 722(b) (3) (F).

<sup>6</sup> There were also 139 individuals that the department had determined were eligible for the program but it had not developed an individualized plan for employment as of March 11, 2016 and it had not closed the file.

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*Recommendation*

- *The Department of Employment and Economic Development should design and implement internal controls to ensure it develops individualized plans for employment within 90 days (or extends development to a specific date) after determining eligibility, or closes the individual's file.*
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March 17, 2015

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

Dear Mr. Nobles:

Thank you for the opportunity to respond to the finding and recommendation indicated in the fiscal year 2015 Federal compliance audit. We are pleased the audit determined that fiscal year 2014 audit findings for Extended Unemployment Insurance benefit applicant financial penalty and effective internal controls for equipment or equipment inventory records have been satisfactorily resolved.

**Audit Finding 1: the Department of Employment Economic Development did not have adequate internal controls to ensure it developed individualized plans for employment for participants in the Rehabilitation Services-Vocational Rehabilitation Grants program within the required timeframe.**

*Recommendation*

- *The Department of Employment and Economic Development should design and implement internal controls to ensure it develops individualized plans for employment within 90 (or extends development to a specific date) after determining eligibility, or closes the individual's file.*

**Response:**

The Department of Employment Economic Development (DEED) agrees with the finding that individualized plans for employment (IPE) must be developed in a timely manner or an extension of that deadline to a specific date must be agreed to by the Vocational Rehabilitation (VR) state agency and the eligible individual.

The timeframe for completion of the IPE was changed immediately upon the President enacting the Workforce Innovation and Opportunity Act (WIOA) on July 22, 2014. This unprecedented implementation timeline required all public VR programs to immediately comply with a significant law change. Both State Services for the Blind (SSB) and VRS have been working expeditiously to implement these changes. Formal policy directives were issued in late 2014.

The current case management system has limited capacity to track timely completion of the IPE. SSB and VRS are currently overhauling the case management system to align with federal changes. The new system is expected to launch in June 2017 and will include functionality to notify staff of IPE due dates.

In the interim, case review processes will focus increased attention to the timely completion requirement and formal case note documentation of any extensions granted with justification for the extension. In some instances, there were case notes that documented the reasons for the delays, but the extensions were not officially granted. Managers and supervisors will reinforce this requirement with all counselors.

Kim Peck, Director of Vocational Rehabilitation Services and Carol Pankow, Director of State Services for the Blind, will oversee procedural changes which will enable DEED to avoid repeat occurrences by June 30, 2016.

If you have any questions or need additional information, please contact Julie Freeman, CFO, at [Julie.freeman@state.mn.us](mailto:Julie.freeman@state.mn.us) or 651-259-7085.

My best regards,

*Katie Clark Sieben*

Katie Clark Sieben  
Commissioner