OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

Financial Audit

Bureau of Mediation Services

Three Fiscal Years Ended June 30, 1999

MAY 25, 2000 **00-23**

Financial Audit Division

The Office of the Legislative Auditor (OLA) is a professional, nonpartisan office in the legislative branch of Minnesota State government. Its principal responsibility is to audit and evaluate the agencies and programs of state government (the State Auditor audits local governments).

OLA's 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 also investigates allegations that state resources have been used inappropriately.

The division has a staff of approximately fifty 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.

Consistent with OLA's mission, the Financial Audit Division works to:

- Promote Accountability,
- Strengthen Legislative Oversight, and
- Support Good Financial Management.

Through its Program Evaluation Division, OLA conducts several evaluations each year and one best practices review.

OLA is under the direction of the Legislative Auditor, who is appointed for a six-year term by the Legislative Audit Commission (LAC). The LAC is a bipartisan commission of Representatives and Senators. It annually selects topics for the Program Evaluation Division, but is generally not involved in scheduling financial audits.

All findings, conclusions, and recommendations in reports issued by the Office of the Legislative Auditor are solely the responsibility of the office and may not reflect the views of the LAC, its individual members, or other members of the Minnesota Legislature.

This document can be made available in alternative formats, such as large print, Braille, or audio tape, by calling 651-296-1727 (voice), or the Minnesota Relay Service at 651-297-5353 or 1-800-627-3529.

All OLA reports are available at our Web Site: http://www.auditor.leg.state.mn.us

If you have comments about our work, or you want to suggest an audit, investigation, evaluation, or best practices review, please contact us at 651-296-4708 or by e-mail at auditor@state.mn.us

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

Report Summary

Financial Audit

Bureau of Mediation Services
Three Fiscal Years Ended June 30, 1999

Overall Conclusion:

The Bureau of Mediation Services properly safeguarded assets, accurately recorded receipts and expenditures in the state's accounting and payroll systems, and was in compliance with applicable finance-related legal provisions and policies. The audit report contained no findings or recommendations for improvement.

Agency Background:

The Bureau of Mediation Services, established pursuant to Minn. Stat. Section 179.02, attempts to maintain constructive labor-management relationships in the state's public, nonprofit, and private sectors. It received annual appropriations of $1,823,000, $2,061,000, and $2,074,000 for fiscal years 1997, 1998, and 1999, respectively.

The Bureau employs 23 staff and has been under the leadership of Commissioner Lance Teachworth since 1994.

Financial Audit Reports address internal control weaknesses and noncompliance issues found during our audits of state departments and agencies. The scope of our audit work at the Bureau of Mediation Services included payroll, administrative and grant expenditures, and interagency revenues.

Room 140, 658 Cedar Street, St. Paul, Minnesota 55155-1603 • Tel: 651/296-4708 • Fax: 651/296-4712
E-mail: auditor@state.mn.us • TDD Relay: 651/297-5353 • Website: www.auditor.leg.state.mn.us

Bureau of Mediation Services

Table of Contents

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
Sonya Johnson, CPA	Auditor-in-Charge
Heather White	Auditor

Exit Conference

We discussed the audit report conclusions with the following representatives of the Bureau of Mediation Services at the exit conference held on May 18, 2000:

Lance Teachworth	Commissioner
Deanna Matteson	Accounting Officer

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

Representative Dan McElroy, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. Lance Teachworth, Commissioner
Bureau of Mediation Services

We have audited financial activities of the Bureau of Mediation Services for the period July 1, 1996, through June 30, 1999. Our audit scope included employee payroll, grants and administrative expenditures, and interagency revenues. The audit objectives and conclusions are highlighted in the individual chapters of this report.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, as issued by the Comptroller General of the United States. Those standards require that we obtain an understanding of management controls relevant to the audit. The standards require that we design the audit to provide reasonable assurance that the Bureau of Mediation Services complied with provisions of laws, regulations, contracts, and grants that are significant to the audit. Management of the *Bureau* is responsible for establishing and maintaining the internal control structure and complying with applicable laws, regulations, contracts, and grants.

This report is intended for the information of the Legislative Audit Commission and the management of the Bureau of Mediation Services. This restriction is not intended to limit the distribution of this report, which was released as a public document on May 25, 2000.

/s/ James R. Nobles

James R. Nobles
Legislative Auditor

/s/ Claudia J. Gudvangen

Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

End of Fieldwork: April 14, 2000

Report Signed On: May 19, 2000

Room 140, 658 Cedar Street, St. Paul, Minnesota 55155-1603 • Tel: 651/296-4708 • Fax: 651/296-4712
E-mail: auditor@state.mn.us • TDD Relay: 651/297-5353 • Website: www.auditor.leg.state.mn.us

Chapter 1. Introduction

The Legislature enacted the Minnesota Labor Relations Act in 1939 as a means to peacefully settle labor disputes. To administer the Act, the Legislature created the Division of Conciliation at that time. In 1969, the Division was renamed the Bureau of Mediation Services establishing it as a separate state agency, pursuant to Minn. Stat. Section 179.02. The Bureau attempts to keep labor disputes at a minimum by ensuring that constructive labor-management relationships exist in the state's public, nonprofit, and private sectors. In 1993, the Legislature transferred the responsibilities of the Office of Dispute Resolution from the Department of Administration to the Bureau. Lance Teachworth has been the agency's commissioner since being appointed on December 29, 1994.

The Bureau of Mediation Services (Bureau) employs 23 staff in four divisions:

- The **Mediation Unit** assists labor and management in resolving collective bargaining unit disputes, including labor contracts and grievances.

- The **Labor-Management Cooperation Unit** awards matching grant funds to labor-management committees and councils in order for them to establish and support public and private sector labor organizations.

- The **Representation Unit** resolves issues resulting from new bargaining unit structures and employee groups desiring representation by a labor union. It also resolves fair share fee challenges and assists with union elections, if requested.

- The **Office of Dispute Resolution** provides third-party mediation or facilitation to resolve public agency non-labor disputes without resorting to litigation.

The Bureau receives the majority of its funding from state appropriations. Unused appropriations carry forward between fiscal years within the biennium, but unexpended funds cancel at the end of each two-year biennium. The agency also receives dedicated revenues from interagency agreements and seminar and workshop fees. Table 1-1 shows the financial activity of the agency for the audit period.

Table 1-1
Bureau of Mediation Services
Sources and Uses of Funds

	Fiscal Year 1997	Fiscal Year 1998	Fiscal Year 1999
Sources:			
State Appropriations	$1,823,000	$2,061,000	$2,074,000
Less: Cancellations	54,206	0	24,860
Net Appropriations	1,768,794	2,061,000	2,049,140
Interagency Receipts	135,462	163,539	135,778
Other Receipts	43,107	32,273	37,457
Salary Supplement	55,724	0	0
Balance Forward In	148,179	38,040	115,564
Total Sources	$2,151,266	$2,294,852	$2,337,939
Uses:			
Payroll	$1,408,459	$1,535,575	$1,590,734
Rent	120,625	126,020	134,896
Travel	93,106	111,866	101,486
Purchased/Professional Services	190,778	111,185	132,556
Grants	190,493	268,940	310,600
Other Expenditures	109,765	23,511	39,378
Balance Forward Out	38,040	115,564	26,043
Transfers Out	0	2,191	2,246
Total Uses	$2,151,266	$2,294,852	$2,337,939

Source: Minnesota Accounting and Procurement System (MAPS) for fiscal years 1997, 1998, and 1999.

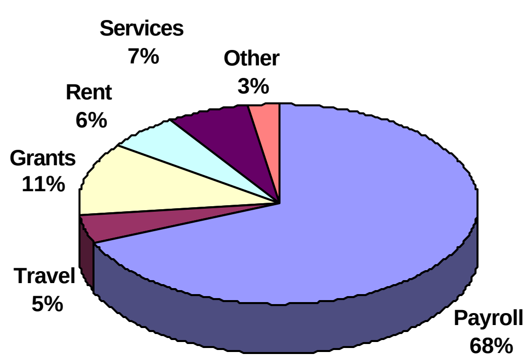
Chapter 2. Payroll and Administrative Expenditures

Chapter Conclusions

The Bureau of Mediation Services' internal controls provided reasonable assurance that payroll and travel expenditures were properly authorized, accurately reported in the accounting records, and were in compliance with the Managerial and Commissioner's Plans. For the items tested, employees were paid and reimbursed for travel in accordance with the provisions of applicable Plans. We determined that the Bureau accurately paid and recorded rent based on authorized lease agreements. We also found that the agency's internal controls provided reasonable assurance that payments for purchased and professional services were authorized based on work performed and accurately reported in the accounting records. For payments tested, services were properly procured, authorized by management, and promptly paid.

Payroll represents the Bureau of Mediation Services' largest expenditure. In addition to payroll, the agency incurred other administrative costs for rent, employee travel reimbursements, and purchased, professional, and technical services. The Bureau also provides grant funds to eligible organizations, as discussed in Chapter 3. Figure 2-1 shows the percentage of expenditures by type for the three fiscal years ended June 30, 1999.

Figure 2-1
Bureau of Mediation Services
Expenditures by Type
Three Fiscal Years Ended June 30, 1999



Source: Minnesota Accounting and Procurement System (MAPS) for fiscal years 1997, 1998, and 1999.

Bureau of Mediation Services

Payroll

Payroll represents the Bureau's largest expenditure, averaging $1.5 million annually. The Bureau of Mediation Services employed 23 individuals during the audit period. The Bureau's accounting officer is responsible for processing the biweekly payroll in the state's payroll system (SEMA4). The commissioner's assistant has responsibility for the SEMA4 human resource functions of the agency. Each of these individuals has backup responsibility for the other, creating incompatible access to both human resource and payroll functions. The increased risk caused by incompatible access was highlighted in our last audit. However, due to limited staff size, Bureau management has decided to accept this risk as it cannot feasibly separate access. As an alternative, the Bureau has instituted detective controls to review the work of staff with access to these incompatible functions. For example, the commissioner reviews and approves the biweekly SEMA4 payroll output reports.

Rent

The agency had two office space leases in effect at a total cost of $134,896 for fiscal year 1999. One was for the Bureau's main office space in St. Paul, and the other was for the Bureau's Office of Dispute Resolution location in the capitol complex. The Department of Administration's Real Estate Management Division negotiated the Bureau's leases for office space. The Bureau's current office space lease began on November 1, 1998, and is effective for ten years. An annual lease for the Office of Dispute Resolution's office space ends June 30 and is renegotiated each year.

Travel

The agency incurred about $100,000 each year for travel expenditures. Bureau mediators incur travel costs for responsibilities throughout the state. The majority of staff use an agency assigned state car to handle state business; however, individuals also use their own vehicles and are reimbursed for mileage. These individuals also incur meal, lodging, and other travel-related expenditures. The agency reimburses staff for eligible travel expenses in amounts allowed in the Managerial and Commissioner's Plans and specified further in agency policy.

Services

The Bureau utilized purchased, professional, and technical services in its operations, including repairs, printing, professional/technical services, computer and systems services, and communications. In fiscal year 1999, the Bureau paid $132,556 for services rendered by vendors and contractors. The Bureau has specific procedures for procurement, authorization, and payment for these expenditures. As a control, the commissioner reviews monthly expenditure reports which detail all expenditures processed by the accounting officer.

Audit Objectives and Methodology

Our audit of payroll and administrative expenditures focused on the following objectives:

- Did the Bureau's internal controls provide reasonable assurance that payroll, travel reimbursements, and other expenditures were appropriately authorized based on work performed, accurately recorded in the accounting system, and in compliance with applicable finance-related legal provisions?

- Did the Bureau accurately pay rent according to the terms of the space lease agreement and properly record it in the accounting system?

- Did the Bureau accurately compensate its employees and reimburse travel costs in accordance with the provisions of the applicable Managerial or Commissioner's Plans and properly procure and promptly pay for services incurred?

To answer these questions, we gained an understanding of the internal control structure over personnel, payroll, rent, travel reimbursements, and services. We compared rent payments to the authorized lease agreement. We analyzed employee compensation and tested hours worked, leave taken, payrate increases, and travel reimbursements to ensure compliance with the terms of the Managerial and Commissioner's Plans. For purchased, professional, and technical services, we analyzed and tested transactions to determine whether payments were properly documented and authorized indicating work was performed and promptly paid to the vendor or contractor.

Conclusions

The Bureau of Mediation Services' internal controls over payroll and travel expenditures provided reasonable assurance that transactions were properly authorized, accurately reported in the accounting records, and in compliance with the Managerial and Commissioner's Plans. Mitigating detective controls sufficiently decrease the risk associated with incompatible staff access to human resource and payroll functions. For the items tested, employees were paid and reimbursed for travel in accordance with the provisions of the Managerial and Commissioner's Plans. The Bureau accurately paid and recorded office space rent based on authorized lease agreements. We also found that the agency's internal controls provided reasonable assurance that purchased, professional, and technical services were authorized based on work performed and accurately reported in the accounting records. For payments tested, services were properly procured, authorized by management, and promptly paid.

Chapter 3. Labor-Management Cooperation Grants

Chapter Conclusions

Bureau internal controls over Labor-Management Cooperation grants provide reasonable assurance that expenditures were accurately recorded in the accounting records and complied with management's authorization, Bureau policies, and finance-related legal provisions. For the items tested, Labor-Management Cooperation grants complied with statutory limits and matching requirements and were paid in accordance with the terms of the grant agreements.

The Bureau of Mediation Services received annual appropriations of $302,000 for Labor-Management Cooperation grants. The grants provide financial and technical assistance for eligible labor-management committees and councils to fund start up and ongoing operating costs. The labor-management councils must be comprised of multiple employer and multiple labor unions whose goals are to improve labor-management in their specific geographic region or area of the state.

To request a grant, the labor-management organization must submit an application identifying committee goals and planned use of grant funds. In addition to the application, they must submit separate work and financial plans. Councils can apply for an annual maximum grant of $75,000, as outlined in Minn. Stat. Section 179.85. The committees can re-apply each year for continued grant funding. The Bureau commissioner and program director review grant applications, determine awards, and monitor progress of the grants. The grant award is for a 12-month period, which begins in January of each year.

The councils submit a quarterly request to receive payment of grant funds. Minn. Stat. Section 179.85 also requires the grant recipient to provide a nonstate match of 10 percent during the first year of the grant, 20 percent in the second year, and 50 percent in the third and subsequent years. Minnesota Rule 5520.0620 requires the grant recipient to undergo a financial and compliance audit at least once every two years.

Table 3-1 shows the Bureau's Labor-Management Cooperation grant recipients for the audit period.

Table 3-1
Bureau of Mediation Services
Labor-Management Grants
Fiscal Years 1997 – 1999

Grant Recipients	1997	1998	1999
Construction Industry Research Company	$14,000	$20,250	$17,750
Construction Partnership, Inc.	7,000	24,000	24,000
Iron Range Labor-Management Association	26,000	38,000	43,000
Labor-Management Partnership of Central Minnesota	8,493	5,690	1,850
Labor-Users-Contractors Council	23,000	40,000	40,000
LaCrosse Area Labor-Management Council	0	6,375	0
Lake Superior Area Labor-Management Association	40,000	57,500	60,500
Metro Hospitals Labor-Management Council	9,000	0	0
Mississippi Valley Labor-Management Council	0	2,125	8,500
Southeastern Minnesota Construction Partnership	7,000	0	0
Twin City Area Labor-Management Council	51,000	70,000	70,000
Twin Ports Construction Liaison Council	5,000	5,000	5,000
Union Construction Crafts Workers' Compensation Fund	0	0	40,000
Total	$190,493	$268,940	$310,600

Source: Minnesota Accounting and Procurement System (MAPS) expenditures for fiscal years 1997, 1998, and 1999.

Audit Objectives and Methodology

Our audit of the Labor-Management Cooperation grant expenditures focused on the following questions:

- Did the Bureau's internal controls provide reasonable assurance that grants were properly authorized, accurately recorded in the accounting records, and in compliance with statutory limits, matching levels, and audit requirements?

- Were Labor-Management grant expenditures made in compliance with statutory limits, matching requirements, and in accordance with the terms of the grant agreements?

To answer these questions, we interviewed Bureau employees to gain an understanding of the internal control structure over Labor-Management Cooperation grants. We compared grant transactions to the recipient grant agreements for accuracy and management's authorization. We tested grants for the proper level of match and maximum grant limits set forth in Minn. Stat. Section 179.85. Finally, we reviewed the Bureau's monitoring of grant recipient financial and compliance audits as required by Minnesota Rules 5520.0620.

Bureau of Mediation Services

Conclusions

The Bureau of Mediation Services' internal controls provide reasonable assurance that Labor-Management Cooperation grants were authorized by management, were accurately recorded in the accounting records, and were in compliance with Minnesota Statutes and Rules. For the items tested, Labor-Management Cooperation grant expenditures complied with statutory limits, matching requirements, and other grant agreement provisions.

Chapter 4. Interagency Revenues

Chapter Conclusions

The Bureau of Mediation Services collected all interagency revenues according to terms set forth in authorized agreements. Internal controls provided reasonable assurance that interagency revenues were properly recorded in the accounting system.

The Bureau of Mediation Services' Office of Dispute Resolution generated dedicated special revenue fund receipts from interagency agreements with the following state agencies:

- Department of Children, Families & Learning for mediating special education conflicts and disputes; and

- Department of Human Rights for administering the Alternative Dispute Resolution Project and mediating human rights disputes.

Interagency agreements exist between the Bureau and each of these agencies. The agreements outline the duties of each agency and the payment terms. The agencies remit payment to the Bureau of Mediation Services on a quarterly basis.

Table 4-1 shows the interagency revenues collected for the audit period.

Table 4-1
Bureau of Mediation Services
Interagency Revenues
Fiscal Years 1997-1999

State Agency	1997	1998	1999
Children, Families & Learning	$ 90,000	$110,000	$ 80,000
Human Rights	45,463	53,539	55,778
Total	$135,463	$163,539	$135,778

Source: Minnesota Accounting and Procurement System (MAPS) for fiscal years 1997, 1998, and 1999.

Bureau of Mediation Services

Audit Objectives and Methodology

Our audit of interagency revenues focused on the following questions:

- Did the Bureau's internal controls provide reasonable assurance that intergovernmental grant revenues were properly recorded in the accounting system?

- Did the Bureau receive all interagency revenues due from agreements authorized by Bureau management?

To answer these questions, we gained an understanding of the internal control structure over the processing and recording of interagency grant revenues. Receipt transactions were tested for accurate recording and compared to terms set forth in authorized interagency agreements.

Conclusions

The Bureau of Mediation Services' internal controls provided reasonable assurance that interagency grant revenues were properly recorded in the accounting records. The Bureau collected all interagency revenues according to the terms set forth in agreements authorized by management.

Status of Prior Audit Issues As of April 14, 2000

Most Recent Audit

Legislative Audit Report 96-40, issued in October 1996, covered the five fiscal years ended June 30, 1996. The scope of this audit included payroll, rent, travel, and grants. The report included two written issues related to payroll and travel. Mileage overpayments for travel were recovered by the Bureau. Increased risk from incompatible staff access to payroll and personnel functions was addressed by developing detective controls, mainly the commissioner's review and approval of biweekly payroll system output reports.

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 metropolitan agencies or the State Agricultural Society, the state constitutional officers, or the judicial branch.