



OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

Financial-Related Audit

Department of Employee Relations

Fiscal Year Ended June 30, 2001



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.

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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

Senator Ann H. Rest, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. Julien Carter, Commissioner
Department of Employee Relations

We have audited selected areas of the Department of Employee Relations for the period July 1, 2000, through June 30, 2001, as further explained in Chapter 1. Our audit scope included the department's employee payroll, professional services contracts, and Office of Special Events Planning. The audit objectives and conclusions are highlighted in the individual chapters of this report. We emphasize that this has not been a comprehensive audit of all of the Department of Employee Relations' financial activities.

We conducted our audit in accordance with *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 Department of Employee Relations complied with provisions of laws, regulations, contracts, and grants that are significant to the audit. Management of the Department of Employee Relations 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 Department of Employee Relations. This restriction is not intended to limit the distribution of this report, which was released as a public document on March 21, 2002.

/s/ James R. Nobles

James R. Nobles
Legislative Auditor

/s/ Claudia J. Gudvangen

Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

End of Fieldwork: January 10, 2002

Report Signed On: March 15, 2002

Department of Employee Relations

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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
Sonya Johnson, CPA	Auditor-in-Charge
Tessa Lee	Auditor
Linda Pha	Auditor

Exit Conference

We discussed the report with the following representatives of the Department of Employee Relations:

William Eisele	Deputy Commissioner, Administration
Ed Anderson	Finance Director
Budd Johnson	State Employees Group Insurance Program Manager
Scott Anderson	Public Employees Insurance Program Manager
Carolyn Hoel	Accountant
Ed Keimig	Internal Auditor

Department of Employee Relations

Report Summary

Overall Conclusion

The Department of Employee Relations' internal controls provided reasonable assurance that it accurately recorded financial activity for the department's payroll, professional services contracts, and Office of Special Events Planning in the state's accounting and payroll systems. For the items tested, the department was in compliance with applicable finance-related legal provisions.

Agency Background

The Department of Employee Relations (DOER) provides services for the human resource management function of state agencies. DOER operates the State Employee Management System (SEMA4) in conjunction with the Department of Finance. The department received annual General Fund appropriations of approximately \$10 million and employed approximately 200 individuals. Julien Carter was appointed commissioner of the department in August 2000.

Financial-Related Audit Reports address internal control weaknesses and noncompliance issues found during our audits of state departments and agencies. The scope of our audit of selected department programs in this report was supplemental to the audit work performed as part of the annual Statewide Audit, the purpose of which is to render an opinion on the State of Minnesota's financial statements for fiscal year 2001. On December 7, 2001, we issued an unqualified opinion on the State of Minnesota's *Comprehensive Annual Financial Report* for the year ended June 30, 2001. We did not identify any financial statement findings or concerns as a result of our work at the Department of Employee Relations on statewide employee payroll, compensated absences and workers' compensation liabilities, and various insurance programs.

Department of Employee Relations

Chapter 1. Introduction

The Department of Employee Relations (DOER) provides services for the human resource management function of all state departments and agencies. DOER also operates the State Employee Management System (SEMA4), the state's payroll/personnel system, in conjunction with the Department of Finance. The current commissioner of the agency is Julien Carter.

During the audit period, the department employed approximately 200 staff in two bureaus, Labor Relations and Personnel, each headed by a deputy commissioner. The Labor Relations Bureau served as the state labor negotiator for state employees in the executive branch. This bureau consisted of the Labor Relations and Compensation Division of the agency. The Personnel Bureau administered programs in DOER's other divisions, including: Administrative Services, Staffing, Information Services, Diversity and Equal Opportunity, Training and Development Resources, and Employee Insurance. DOER's Employee Insurance Division administered the state and public employees insurance programs. The department recently downsized its Training and Development Resources Center and closed the Office of Special Events due to budget cutbacks during fiscal year 2002.

DOER's main funding sources consist of General Fund appropriations and insurance premiums and administrative fees for the State Employee Group Insurance Program (SEGIP), the Public Employee Insurance Program (PEIP), the Pre-Tax Benefit Program, and the Workers' Compensation Program. Other revenue sources include investment income and fees for services from conferences and employee training.

The current audit was supplemental to the work we performed during our annual Statewide Audit of the state's financial statements. The purpose of the Statewide Audit was to give an opinion on the State of Minnesota's *Comprehensive Annual Financial Report*. An unqualified opinion was issued on December 7, 2001, for the fiscal year ended June 30, 2001.

We focused this audit on selected departmental activities including payroll costs, professional services contracts, and the Office of Special Events Planning, as discussed in Chapter 2 and Chapter 3 of this report.

Chapter 2. Payroll and Professional Services Contracts

Chapter Conclusions

The Department of Employee Relations' internal controls provided reasonable assurance that payroll and professional services contract expenditures were accurately recorded in the accounting and payroll systems, and that employees were compensated in compliance with legal provisions and management's authorization. Department controls ensured it accurately paid contractor invoices authorized by management; however, improved oversight over contractor duties and work products are needed as discussed in a recent Program Evaluation Division report titled, 'State Employee Health Insurance.' For the items tested, the department complied with applicable finance-related legal requirements, compensation plans, and bargaining unit agreements.

Payroll represents one of the Department of Employee Relations' largest administrative expenditures, totaling approximately \$12.4 million in fiscal year 2001. In addition to payroll, professional services contracts were also a significant area of spending. Expenditures for these services totaled approximately \$7.7 million in fiscal year 2001. Table 1-1 shows payroll and professional services costs for the funds the department manages.

Table 1-1
Department of Employee Relations
Payroll and Professional Services by Fund
FY 2001

	General Fund	Special Revenue Fund	State Employees Insurance Fund	Public Employees Insurance Fund	Minnesota Employers Insurance Plan ⁽¹⁾	Total
Payroll	\$6,732,780	\$3,183,550 ⁽²⁾	\$2,313,764	\$ 186,886	\$ 0	\$12,416,980
Professional Services	247,535	1,922,253 ⁽³⁾	1,409,048	4,153,975	6,632	7,739,443

(1) The financial activities of Minnesota Employers Insurance Plan represents residual costs to discontinue the program.

(2) Payroll costs include \$146,383 for the Office of Special Events Planning.

(3) Professional services costs include \$42,624 for the Office of Special Events Planning.

Source: Minnesota Accounting and Procurement System through September 7, 2001, for budgetary fiscal year 2001.

Payroll

The Department of Employee Relations employed approximately 200 individuals during our audit period. The agency's fiscal services office is responsible for processing the biweekly payroll in SEMA4. The agency has other individuals who are responsible for the personnel and

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human resource functions of the agency. Compensation for department staff is governed by a wide variety of bargaining unit agreements and compensation plans.

Professional Services

The department had four major contracts for professional services during fiscal year 2001. These contracts were with the agency's main insurance and risk management consultant, two third-party administrators for the agency's public employee insurance and pretax benefits programs, and with a certified managed care plan for the workers' compensation program. The fiscal services office works with each division to initiate and approve professional services contracts and process payments when the services have been provided.

Audit Objectives and Methodology

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

- Did the department's internal controls provide reasonable assurance that payroll and professional services expenditures were accurately recorded in the accounting and payroll systems, and that employees and contractors were paid in compliance with legal provisions and management's authorization?
- Did the department comply with significant finance-related legal requirements, compensation plans, and bargaining unit agreements?

To address these questions, we obtained an understanding of the internal control structure in place over the processing of payroll and professional services contracts. We examined the reasonableness of employee salaries and the funds in which various payroll costs were recorded. Tests of employee compensation, hours worked, and pay rate increases were done to ensure compliance with the terms of the applicable bargaining unit agreements or compensation plans. We also analyzed professional services contracts to determine that payments were made for services provided, and that they were charged to the proper fund in the accounting system.

Conclusions

The Department of Employee Relations' internal controls provided reasonable assurance that payroll and professional services contract expenditures were accurately recorded in the accounting and payroll systems, and that employees were compensated in compliance with legal provisions and management's authorization. Department controls ensured it accurately paid contractor invoices authorized by management; however, improved oversight over contractor duties and work products are needed, as discussed in a recent Program Evaluation Division report titled, *State Employee Health Insurance*, issued in February 2002. For the items tested, the department complied with applicable finance-related legal requirements, compensation plans, and bargaining unit agreements.

Chapter 3. Office of Special Events Planning

Chapter Conclusions

The department's internal controls provided reasonable assurance that the Office of Special Events Planning's financial activities were accurately reported in the accounting records and in compliance with applicable legal provisions and management's authorization. We found that the department provided complete and accurate financial information to agencies that sponsored the conferences and were billed for its costs.

The Office of Special Events Planning is a unit within the Department of Employee Relations that plans, manages, and prepares seminars, conferences, and meetings for groups of various sizes. During fiscal year 2001, the office operated 20 different conferences for various state agencies. A conference sponsor would contact office staff with a specific request for a conference or meeting. The office determined the estimated cost of the conference based upon the sponsoring agency's requirements. The office entered into an interagency agreement with the sponsor of the conference, outlining specific terms and conditions. Fiscal services collected all registration fees and paid all of the expenditures related to the conference. At the end of the conference, the department provided the sponsoring agency with an accounting of all revenues and expenditures associated with the conference. The agency is responsible for any additional costs not recovered by the registration fees.

To improve control and accountability, the department used separate accounts in the Minnesota Accounting and Procurement System (MAPS) to distinguish costs for each conference. During fiscal year 2001, it received \$838,963 from the conferences, and expenditures totaled \$760,951. Annual revenues were greater than operating costs since registration fees are collected prior to holding a conference.

Audit Objectives and Methodology

Our audit of the Office of Special Events Planning focused on the following objectives:

- Did the department's internal controls provide reasonable assurance that the financial activities of the Office of Special Events Planning were accurately reported in the accounting records and in compliance with applicable legal provisions and management's authorization?
- Did DOER provide complete and accurate financial information to conference-sponsoring agencies?

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To answer these questions, we obtained an understanding of the internal control structure in place over the Office of Special Events Planning expenditures and the revenues collected from the billing of those costs back to the sponsoring state agency. We tested a sample of conferences to ensure that costs were accurately determined, and that it properly collected the revenues from the state agency involved.

Conclusions

We concluded that the department's internal controls provided reasonable assurance that the Office of Special Events Planning's financial activities were accurately reported in the accounting records and in compliance with applicable legal provisions and management's authorization. The department provided complete and accurate financial information to agencies that sponsored the conferences and were billed for its costs.

Department of Employee Relations

Status of Prior Audit Issues As of January 10, 2002

Most Recent Audits

FY 2001 Statewide Audit

We examined the department's activities and programs material to the State of Minnesota's *Comprehensive Annual Financial Report* for the fiscal year ended June 30, 2001. The purpose of the audit was to render an opinion on the State of Minnesota's financial statements for fiscal year 2001. We issued an unqualified opinion on the State of Minnesota's *Comprehensive Annual Financial Report* for the year ended June 30, 2000. We did not identify any financial statement findings or concerns as a result of our work at the Department of Employee Relations.

FY 2000 Statewide Audit

We examined the material department activities and programs in the State of Minnesota's *Comprehensive Annual Financial Report* for the fiscal year ended June 30, 2000. An unqualified opinion was rendered on the State of Minnesota's *Comprehensive Annual Financial Report* for the year ended June 30, 2000. No written financial statement findings or concerns were identified in our audit of the Department of Employee Relations.

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.