



**Financial Audit Division Report**

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**Department of Employee  
Relations  
Internal Control and Compliance  
July 1, 2005, through December 31, 2007**

**May 22, 2008**

**Report 08-15**

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FINANCIAL AUDIT DIVISION

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## Office of the Legislative Auditor Financial Audit Division

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## OFFICE OF THE LEGISLATIVE AUDITOR

State of Minnesota • James Nobles, Legislative Auditor

May 20, 2008

Representative Rick Hansen, Chair  
Legislative Audit Commission

Members of the Legislative Audit Commission

Patricia Anderson, Commissioner  
Department of Employee Relations

Tom Hanson, Commissioner  
Department of Finance

This report presents the results of our internal control and compliance audit of the Department of Employee Relations (department) for the period July 1, 2005, through December 31, 2007.

Our fieldwork ended on February 29, 2008, and we discussed the results of the audit with department staff on May 9, 2008. The audit was conducted by Jim Riebe, CPA (Audit Manager) and David Westlund (Auditor-in-Charge), assisted by auditors Mark Allan and Kayla Peterson.

We received the full cooperation of the department 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

## Conclusions

Generally, for the majority of its financial operations, the department's internal controls were adequate to ensure that it safeguarded receipts and other assets, accurately paid employees and vendors in accordance with management's authorization, produced reliable financial information, and complied with finance-related legal requirements. For the items tested, the department generally complied with finance-related legal requirements over its financial activities. However, the department had six weaknesses related to internal control and legal compliance over some significant aspects of its operations. We highlight the key findings below.

## Key Findings

- The department did not adequately safeguard or promptly deposit certain insurance receipts. ([Finding 1, page 7](#))
- The department did not verify that health plan administrators met some performance measures used in the calculation of incentive payments. ([Finding 2, page 8](#))
- The department did not obtain assurance that adequate internal controls existed at contractors that processed state employee pre-tax expense account and public employee insurance claims. ([Finding 3, page 9](#))
- The department accumulated excess balances in the funds it used to administer the state employee pre-tax expense accounts. ([Finding 4, page 10](#))
- The department did not adequately resolve all instances where employees did not certify their timesheets or primary supervisors did not authorize the timesheets. ([Finding 5, page 11](#))

## Audit Objectives and Scope

### Objectives

- Internal Controls
- Compliance

### Period Audited

July 1, 2005, through December 31, 2007

### Programs Audited

- |   |                      |
|---|----------------------|
| • Payroll and Other Administrative Expenditures | • Insurance Premiums |
| • State Employee Pre-Tax Expense Accounts       | • Insurance Claims   |

## Background

As the personnel, insurance benefits, and labor relations office, the Department of Employee Relations assists all other agencies in issues relating to state employment. The department received General Fund appropriations of about \$6.2 million for operations each of the past three fiscal years. The department also collected insurance receipts and paid claims that exceeded over \$500 million each year.

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# Department of Employee Relations

## Agency Overview

The Department of Employee Relations manages the human resource function of Minnesota state government. As the state's personnel, insurance benefits, and labor relations office, the department assists all other state agencies in issues relating to state employment. It operates under the authority of [Minnesota Statutes](#) 2007, chapter 43A.

The department is responsible for three main functions:

- administering the state's merit system<sup>1</sup> and providing a wide variety of human resource services to 120 state agencies, boards, and commissions;
- negotiating and administering labor agreements and compensation plans covering 37,300 state executive branch employees; and
- developing, implementing, and managing insurance benefits for over 120,000 employees, retirees, and their dependents; the state employee pre-tax expense accounts; and workers' compensation benefits for more than 57,000 employees of the executive, legislative, and judicial branches and of quasi-state agencies, such as the Minnesota Historical Society and the Minnesota State Fair.

In January 2007, Governor Pawlenty formalized a plan, subsequently authorized by the Legislature, to shift the department's functions into other state agencies. As of December 2007, the state employee workers' compensation program had been transferred to the Risk Management Division of the Department of Administration. The recently created Center of Health Care Purchasing moved to the Department of Health. The department plans to transfer the remainder of its functions to the Department of Finance by June 2008.

The department's primary source of funding for operations is General Fund appropriations, which totaled about \$6.2 million for each of the past three fiscal years. Table 1 summarizes the department's receipts and expenditures for the period July 1, 2005, through December 31, 2007.

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<sup>1</sup> The merit system is the process of promoting and hiring government employees based on their ability to perform a job.

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**Table 1**  
**Revenues and Expenditures**  
**July 1, 2005 through December 31, 2007**

	<b>Fiscal Years<sup>1</sup></b>		
<b><u>Revenues</u></b>	<b><u>2006</u></b>	<b><u>2007</u></b>	<b><u>2008<sup>2</sup></u></b>
State Employee Group Insurance Premiums	\$551,213,852	\$562,388,246	\$285,457,065
Public Employee Insurance Premiums	15,119,099	13,933,728	6,426,155
State Employee Pre-Tax Expense Account Deductions	22,017,160	23,697,909	11,282,907
<b>Total</b>	<b><u>\$588,350,111</u></b>	<b><u>\$600,019,888</u></b>	<b><u>\$303,166,127</u></b>
<b><u>Expenditures</u></b>			
State Employee Group Insurance Claims	\$500,274,655	\$554,467,854	\$279,998,181
Public Employee Insurance Claims	11,360,559	10,144,697	5,646,747
State Employee Pre-Tax Expense Account Reimbursements	20,264,250	22,196,690	9,975,374
Workers' Compensation Claims <sup>3</sup>	16,602,729	20,140,071	10,263,951
Payroll and Per Diem	10,625,325	10,810,356	4,827,949
Professional/Technical Contracts	6,595,269	6,902,428	2,095,807
Computer and System Services	2,342,909	2,215,230	404,464
Space Rental	582,612	588,929	309,486
Supplies and Equipment	562,658	261,876	28,838
Travel	42,789	65,218	24,864
Other Expenditures	2,768,689	2,354,728	527,966
<b>Total</b>	<b><u>\$572,022,443</u></b>	<b><u>\$630,148,077</u></b>	<b><u>\$314,103,627</u></b>

<sup>1</sup>The state's fiscal year is July 1 through June 30.

<sup>2</sup>Fiscal year 2008 includes expenditures paid and revenues received as of December 31, 2007. Therefore, the amounts are not comparative with other fiscal years.

<sup>3</sup>Workers' compensation claims were not included as part of the audit scope since that program had been transferred to the Department of Administration at the time of our audit.

Source: Minnesota Accounting and Procurement System as of December 31, 2007.



## Objectives, Scope, and Methodology

Our audit of the Department of Employee Relations' material receipts and expenditures (except for state employee workers' compensation claims that were outside the scope of our audit) focused on the following audit objectives for the period July 1, 2005, to December 31, 2007:

- Were the department's internal controls adequate to ensure that it safeguarded receipts and other assets, accurately paid employees and vendors in accordance with management's authorization, produced reliable financial information, and complied with finance-related legal requirements?
- For the items tested, did the department comply with significant finance-related legal requirements over its financial activities, including state and federal laws, regulations, contracts, and applicable policies and procedures?
- Did the department resolve a prior audit recommendation that it work with the Department of Finance to determine the appropriate level of reserves in the State Employees Group Insurance Program?<sup>2</sup>

To answer these questions, we gained an understanding of the department's financial policies and procedures. We considered the risk of errors in the accounting records and noncompliance with relevant legal provisions. We analyzed accounting data to identify unusual trends or significant changes in financial operations. We examined samples of transactions and evidence supporting the agency's internal controls and compliance with laws, regulations, policies, and contracts.

We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives.

We used various criteria to evaluate internal control and compliance. We used as our criteria to evaluate agency controls the guidance contained in the *Internal Control-Integrated Framework*, published by the Committee of Sponsoring

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<sup>2</sup> Financial Audit Division [Report 04-09](#).

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Organizations of the Treadway Commission.<sup>3</sup> We used state and federal laws, regulations, and contracts, as well as policies and procedures established by the departments of Finance and Administration and the department's internal policies and procedures as evaluation criteria over compliance.

## Conclusions

Generally, for the majority of its financial operations, the department's internal controls were adequate to ensure that it safeguarded receipts and other assets, accurately paid employees and vendors in accordance with management's authorization, produced reliable financial information, and complied with finance-related legal requirements. For the items tested, the department generally complied with finance-related legal requirements over its financial activities. In addition, the department resolved the prior finding related to insurance reserves. However, the department could improve controls and compliance over some significant aspects of its operations, as explained in the following findings.

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<sup>3</sup> The Treadway Commission and its Committee of Sponsoring Organizations were established in the 1985 by the major national associations of accountants. One of their primary tasks was to identify the components of internal control that organizations should have in place to prevent inappropriate financial activity. The resulting Internal Control-Integrated Framework is the accepted accounting and auditing standard for internal control design and assessment.

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## Findings and Recommendations

**The Department of Employee Relations did not adequately safeguard or promptly deposit certain insurance receipts.**

### Finding 1

The department did not adequately safeguard about \$92.5 million it received for the Public Employee Insurance Program and from retirees who elected to continue state insurance coverage. In addition, the department did not promptly deposit some checks forwarded to it by the Department of Human Services, where the checks had been initially received.<sup>4</sup>

The department had the following weaknesses related to its receipt process:

- The department did not provide sufficient physical security over receipts and did not restrictively endorse checks immediately upon receipt. The department collected receipts throughout the day from couriers and U.S. mail. The department stored the receipts in an insecure location until the end of the day when an employee processed the checks. The next day, the employee restrictively endorsed the checks and prepared the deposit.
- The department did not verify that it had deposited and accurately accounted for all receipts collected. Although a department employee recorded the receipts on a check log, no one reconciled the check log to the actual deposit. As a result, the department lacked assurance that all of the checks it received had been deposited in the bank.
- The department did not require the Department of Human Services to include a list of checks it forwarded to Employee Relations. Strong internal control provides for a detailed accounting whenever physical custody of assets changes hands. Without the list of forwarded checks, the department could not verify it received all of the checks Human Services had submitted.
- The department did not promptly deposit receipts Human Services had forwarded to Employee Relations for further review. State statutes require the daily deposits of receipts exceeding \$250.<sup>5</sup> Due to the delay caused by

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<sup>4</sup> The Department of Employee Relations had an interagency agreement with the Department of Human Services to provide invoicing and receipt processing services for certain receipts. The interagency agreement instructed Human Services to forward checks to Employee Relations for further review of certain types of unique transactions.

<sup>5</sup> *Minnesota Statutes* 2007, 16A.275.

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forwarding the receipts to Employee Relations, the department did not comply with state statute. For the month of January 2007, Employee Relations' daily average of receipts not deposited in accordance with statute was \$14,288.

The department's lack of adequate controls over the physical security and verification of deposits and delay in depositing receipts increased the risk of theft or lost receipts. In addition, by not promptly depositing receipts, the state lost potential interest earnings.

#### *Recommendations*

- *The department should increase physical controls over receipts by restrictively endorsing checks immediately upon receipt and keeping them in a secure location until deposit.*
- *The department should reconcile its check log to bank deposits and should obtain and verify a list of checks received from the Department of Human Services.*
- *The department should ensure that it promptly deposits all receipts exceeding \$250 in accordance with state statute, or request the Department of Finance approve a waiver from the prompt deposit requirement.*

## **Finding 2**

**The department did not verify that health plan administrators met some performance measures used in the calculation of incentive payments.**

The department did not verify that health plan administrators met performance measures for approximately \$340,000 of \$1.6 million paid as incentives during fiscal years 2006 through 2008. In addition, the department did not document an outside consulting firm's verbal confirmation that health plan administrators met cost management performance measures used in the calculation of additional incentive payments totaling over \$222,000. The department did verify that the health plan administrators attained a majority of the performance measures through an outside consulting firm and internal control audits. However, the department did not verify performance measures used in the calculation of some incentive payments, such as customer satisfaction and timeliness in answering telephone calls. Instead, the department relied solely on the information submitted by the health plan administrators on their achievement of those performance measures.

The department contracted with three health plan administrators to provide medical insurance to state employees. The administrators acted as intermediaries between the state and the healthcare providers, such as hospitals and clinics that provided medical services to state employees. The department's contracts with

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the health plan administrators contained incentives and penalties to encourage the carriers to exceed specific performance measures. By not verifying the accuracy of their reported performance for these measures, the department had no assurance that it paid the health plan administrators only those incentives they had earned in accordance with the contracts. In addition, since the department did not document the verification completed by the outside consulting firm on the cost management performance measures, the department could not provide evidence that the verification occurred.

#### *Recommendations*

- *The department should not include in its contracts with health plan administrators incentive payments for performance measures that it cannot reasonably verify.*
- *The department should verify and document that health plan administrators have met performance measures before making incentive payments or assessing penalties.*

**The department did not obtain assurance that adequate internal controls existed at contractors that processed state employee pre-tax expense accounts and public employee insurance claims.**

### **Finding 3**

The department did not obtain assurance that adequate internal controls existed for the insurance claims processed by administrators of the pre-tax expense accounts and the Public Employee Insurance Program.<sup>6</sup> The department could get this assurance by including in its contracts a requirement that the vendors obtain an assessment, performed by independent auditors, of their controls over claims processing. (The department does require this assessment for health plan administrators administering the State Employee Group Insurance Program.) This type of assessment results in a report that the department can obtain. The report would include the results of the assessment and also identify controls that the department should have in place to monitor the vendors' activities. Without this independent assessment of the adequacy of the vendors' internal controls, the department cannot know whether the amounts charged by the vendors for claims processed and administrative fees are accurate.

For fiscal years 2005 through 2007, the department made payments to the contractors for insurance claims and administrative fees of approximately \$54 million for the pre-tax expense accounts and \$36.6 million for the Public Employee Insurance Program.

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<sup>6</sup> To administer the pre-tax expense accounts and Public Employee Insurance Program, the department contracted with vendors who process payments to the employees and health plan administrators.

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### *Recommendations*

- *For the pre-tax expense accounts and Public Employee Insurance Program, the department should include in its contracts a requirement that the vendors have an assessment of their internal controls performed by an independent auditor.*
- *If the department obtains the vendors' internal control reports, it should ensure that it performs controls identified in the reports that are designed to monitor vendor activity.*

## Finding 4

**The department accumulated excess balances in the funds it used to administer the state employee pre-tax expense accounts.**

As of June 30, 2007, the department had accumulated a balance of approximately \$1.9 million in funds used to operate the pre-tax expense accounts. As presented in Table 2, the balance included \$1.2 million in employee forfeitures that remained in an employee trust account as of the end of the 2006 program year; it also included over \$700,000 in an account the department used to collect fees it charged to state agencies that have employees who participate in the program. The department incurs about \$1.2 million annually to administer the program.

**Table 2**  
**Pre-tax Expense Accounts Accumulated Balances**

	Administrative Account <sup>1</sup>	Employee Forfeitures <sup>2</sup>
<u>2006</u>		
Beginning Balance	\$ 661,998	\$ 1,120,633
Revenues	1,170,497	21,619,464
Expenditures	<u>1,207,875</u>	<u>21,547,482</u>
Ending Balance	<u>\$ 624,620</u>	<u>\$ 1,192,615</u>
<u>2007</u>		
Beginning Balance	624,620	
Revenues	1,239,296	
Expenditures	<u>1,162,459</u>	
Ending Balance	<u>\$ 701,457</u>	

<sup>1</sup> The administrative account values are based on fiscal year activity from July 1 through June 30.

<sup>2</sup> The employee forfeiture values are based on calendar year activity. At the time of our audit, calendar year amounts for 2007 had not been finalized.

Source: Minnesota Accounting and Procurement System as of December 31, 2007.

The pre-tax expense accounts allow state employees to have funds withheld from their paychecks pre-tax to pay for qualifying expenses, such as medical, dependent care, and certain transportation expenses. Once employees pay for eligible expenses, they request reimbursement from a third-party claims

processor. The claims processor periodically invoices the department for claims it has paid to state employees as well as for its administrative costs. The program operates on a calendar year basis, and state employees forfeit any remaining funds in their accounts at the end of each program year. Forfeited funds revert to the employer.

According to IRS regulations and state statutes, the department has several options for administering the pre-tax expense accounts. IRS regulations allow employers to use forfeited funds to pay administrative costs, reimburse employees for administrative fees charged, or use the funds for other purposes. According to statute, the department may use employee forfeitures to pay for its administrative costs and may also use employer FICA savings generated from the dependent care and the medical and dental expense accounts.<sup>7</sup> As the employer, state agencies pay less FICA taxes since their employees' taxable income is lower by participating in the pre-tax expense accounts. The department recouped this FICA savings from state agencies by charging \$3.30 per pay period for each employee that participated in either of the medical or dependent care expense accounts or \$6.60 for participation in both accounts.

#### *Recommendations*

- *The department needs to transfer employee forfeitures from its trust account when employees no longer have a right to those funds, and establish a policy on how to use the forfeited funds.*
- *The department should analyze the funds available for administrative costs and its cash flow needs and determine the disposition of the excess funds.*

**The department did not adequately resolve all instances where employees did not certify their timesheets or primary supervisors did not authorize the timesheets.**

## **Finding 5**

The department did not sufficiently review a key payroll exception report intended to ensure the accuracy of its biweekly payroll. Department of Finance policy requires agencies to review the self service time entry audit report, which is available each pay period through the state's payroll system.<sup>8</sup> The report identifies transactions that bypassed important certification and authorization controls, such as employees not certifying timesheets, changes made to employee timesheets after employees certified the hours worked, and primary supervisors not authorizing timesheets.

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<sup>7</sup> *Minnesota Statutes* 2007, 43A.48.

<sup>8</sup> Department of Finance Policy PAY0017.

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For each of the five pay periods tested, the department did not document the disposition of all exceptions identified in the report. The department printed and reviewed the report for each of the five pay periods tested, but did not follow up with all employees or primary supervisors to verify the accuracy of the reported hours. In the tested pay periods, the department did not follow up on 19 timesheets where employees did not certify their hours and 58 timesheets where primary supervisors did not approve the hours.

*Recommendation*

- *Each pay period, the department should document its resolution of all exceptions noted on the self service time entry audit report.*

## **Finding 6**

**The department did not monitor personal use of state-owned cell phones as required by state policy and federal Internal Revenue Service regulations.**

The department did not require employees to review monthly cell phone bills to identify personal calls. In addition, the department could not provide evidence that employees with state-owned cell phones had received and reviewed state policies over cell phones before the issuance of the cell phones. State policy requires that employees acknowledge in writing the receipt and acceptance of the conditions for the individual assignment of a state-owned cell phone before the issuance of the cell phone.<sup>9</sup> The department had four cell phones as of December 2007.

State policy also requires employees who receive state-issued cell phones to review and identify all personal calls, including essential calls and nonessential calls, and submit the information for supervisory review and approval each month. The policy defines essential calls as being of minimal duration and frequency, urgent in nature, and unable to be made at another time from a different phone; all other personal calls are considered nonessential. Any nonessential personal calls must be reimbursed to the state within 30 days. The intent of the policy is to ensure compliance with federal Internal Revenue Service (IRS) regulations for employers who issue cell phones to employees. According to current IRS rules, unless employers enforce a policy that employees track personal cell phone use and require employee reimbursement of the personal calls, including a prorated share of the monthly service fee, employers must report the total cell phone expense as income to the employee.

By not requiring employees to review monthly statements for personal calls, in addition to not complying with state and IRS regulations, the department may pay

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<sup>9</sup> Department of Administration Statewide Policy: Appropriate Use of Electronic Communication and Technology.

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unallowable personal cell phone expenses. Also, by not tracking personal calls, the department may not be able to determine whether the extent of business use justifies the cost of the cell phone during its annual cost benefit analysis of cell phones issued to individual employees.

#### *Recommendations*

- *The department should obtain and retain written acknowledgments that employees have received a state-owned cell phone and understand state policies governing cell phone use.*
  - *The department should monitor the personal use of state-owned cell phones by employees and require reimbursement for nonessential personal calls, including a pro-rated share of the monthly service plan.*
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May 16, 2008

James Nobles, Legislative Auditor  
Room 140 Centennial Building  
658 Cedar Street  
St. Paul, Minnesota 55155-1603

Dear Mr. Nobles:

Thank you for meeting with us to discuss the Department of Employee Relations internal control and compliance audit for the period of July 1, 2005 through December 31, 2007. We recognize the importance of regularly auditing all aspects of our business and we appreciate the effort you and your staff invested in your review. As with all audits and reviews, we welcome your guidance and recommendations. As we discussed, we are in the final stages of the merger between the Departments of Finance and Employee Relations. As a result, both agencies are responding to your report.

The department's response is as follows:

**Finding #1: The Department of Employee Relations did not adequately safeguard or promptly deposit certain insurance receipts.**

**Recommendations:** *The department should increase physical controls over receipts by restrictively endorsing checks immediately upon receipt and keeping them in a secure location until deposit.*

*The department should reconcile its check log to bank deposits and should obtain and verify a list of checks received from the Department of Human Services.*

*The department should ensure that it promptly deposits all receipts exceeding \$250 in accordance with state statute, or request a waiver from the Department of Finance from the prompt deposit requirement.*

**Response:** The department will comply with this recommendation.

The department has taken several steps toward resolving this finding. We've directed the Department of Human Services Issuance Operations Center (IOC) to deposit all checks upon receipt. On rare occasion there may be a need to forward a check to the department in the event there may be a problem with it. When this occurs, the department will act quickly to resolve the issue and deposit the check in order to meet statutory requirements. We expect that over 99% of the checks it receives will be deposited by the IOC. In addition, the department logs, endorses, and secures any check upon receipt. The department will work with the IOC to ensure it receives a log for all checks it may send us in order to perform the necessary reconciliation.

**Responsible:** Dennis Munkwitz

**Estimated Date of Completion:** July 1, 2008

**Finding #2:** The department did not verify that health plan administrators met some performance measures used in the calculation of incentive payments.

**Recommendations:** *The department should not include in its contracts with insurance carriers incentive payments for performance measures that it cannot reasonably verify.*

*The department should verify and document that insurance carriers have met performance measures before making incentive payments or assessing penalties.*

**Response:** The department will comply with this recommendation.

The Employee Insurance Division (EID) will ensure that it has received adequate documentation to support the calculation of incentive and forfeiture results on its current contracts. The EID will review the supporting documentation to verify the accuracy of the calculation of incentives and forfeitures.

Future contracts will limit incentive and penalty provisions to those that can be verified by the EID or an acceptable external source. In addition, incentives and penalties will include only those provisions which provide value to the EID programs. The target date for completing the 2009 health plan administrator contracts is July 1, 2008.

**Responsible:** Nathan Moracco

**Estimated Date of Completion:** July 1, 2008

**Finding #3:** The department did not obtain assurance that adequate internal controls existed at contractors that processed state employee pre-tax expense accounts and public employee insurance claims.

**Recommendations:** *For the pre-tax expense accounts and Public Employee Insurance Program, the department should include in its contracts a requirement that the vendors have an assessment of their internal controls performed by an independent auditor.*

*The department should obtain the vendors' internal control reports and ensure that it performs controls identified in the reports that are designed to monitor vendor activity.*

**Response:** The department will comply with this recommendation.

The current vendor contracts for the pre-tax accounts and the Public Employee Insurance Programs (PEIP) do not include a requirement for a SAS 70 or equivalent assessment of internal controls. Our recent contact with these vendors indicated a strong willingness to amend the current contracts to include this provision. In the near future, we expect all existing and future contracts to include this provision.

In the interim, the PEIP vendor has an existing contract with an external organization that is currently performing a SAS 70. We anticipate that the results of that audit will be available by the end of the calendar year. The pre-tax vendor has agreed to contract for a limited SAS 70 on claim administration functions and to make that available prior to the end of the current calendar year.

**Responsible:** Nathan Moracco

**Estimated Date of Completion:** December 31, 2008

**Finding #4: The department accumulated excess balances in the funds it used to administer the state employee pre-tax expense accounts.**

**Recommendations:** *The department needs to transfer employee forfeitures from its trust account when employees no longer have a right to those funds, and establish a policy on how to use the forfeited funds.*

*The department should analyze the funds available for administrative costs and its cash flow needs and determine the disposition of the excess funds.*

**Response:** The department will comply with this recommendation.

EID will analyze the fund and make the necessary adjustments to comply with your recommendations. Initial analysis will include appropriate distribution of funds for salaries, systems and others functions that support the pre-tax accounts. In addition, analysis will review the necessary cash flow needs for the program that *resets* each year and may require prior year dollars to maintain cash flow requirements. The EID will establish a policy for managing the employee forfeitures. The policy will assure that forfeitures are transferred to the appropriate accounts in a timely fashion and are utilized to offset allowable plan administrative expenses as required by the IRS. The EID will present a recommendation for this policy to the commissioner by July 1, 2008.

**Responsible:** Nathan Moracco/Dennis Munkwitz

**Estimated Date of Completion:** December 31, 2008

**Finding #5: The department did not adequately resolve all instances where employees did not certify their timesheets or primary supervisors did not authorize the timesheets.**

**Recommendation:** *Each pay period, the department should document its resolution of all exceptions noted on the self service time entry audit report.*

**Response:** The department will comply with this recommendation.

On a biweekly basis the department will review the time entry audit report and resolve and document all exceptions.

**Responsible:** Dennis Munkwitz

**Estimated Date of Completion:** June 1, 2008

**Finding #6:** The department did not monitor personal use of state-owned cell phones as required by state policy and federal Internal Revenue Service regulations.

**Recommendations:** *The department should obtain and retain written acknowledgements that employees have received a state-owned cell phone and understand state policies governing cell phone use.*

*The department should monitor the personal use of state-owned cell phones by employees and require reimbursement for nonessential personal calls, including a pro-rated share of the monthly service plan.*

**Response:** The department will comply with this recommendation.

The Department of Finance has an established policy and procedure in place for all state-owned cellular telephone devices. The three devices in place at the department will fall under that policy and be in compliance when the merger of the two departments takes place on June 1, 2008.

**Responsible:** Dennis Munkwitz

**Estimated Date of Completion:** June 1, 2008

Thank you again for the time and effort you and your staff invested in conducting this review. As always, your staff conducted the audit with professionalism and respect. We enjoyed working with them and look forward to working with you again.

Sincerely,



Tom J. Hanson  
Commissioner  
Department of Finance



Patricia Anderson  
Commissioner  
Department of Employee Relations