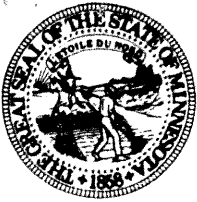

**BUREAU OF MEDIATION SERVICES
FINANCIAL AND COMPLIANCE AUDIT
FOR THE THREE YEARS ENDED JUNE 30, 1988**

JULY 1989

**Financial Audit Division
Office of the Legislative Auditor
State of Minnesota**



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

VETERANS SERVICE BUILDING, ST. PAUL, MN 55155 • 612/296-4708

JAMES R. NOBLES, LEGISLATIVE AUDITOR

Senator John E. Brandl, Chairman
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. Paul W. Goldberg, Commissioner
Bureau of Mediation Services

Audit Scope

We have completed a financial and compliance audit of the Bureau of Mediation Services for the three years ended June 30, 1988. Section I provides a brief description of the Bureau of Mediation Services' activities and finances. Our audit was made in accordance with generally accepted auditing standards and the standards for financial and compliance audits contained in the U.S. General Accounting Office Government Auditing Standards, and accordingly, included such audit procedures as we considered necessary in the circumstances.

Internal Accounting Control Systems

One objective of this audit was to study and evaluate major internal accounting control systems; payroll, receipts, grants, fixed assets and administrative disbursements at the Bureau of Mediation Services, in effect as of May 2, 1989.

The management of the Bureau of Mediation Services is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

Finance-Related Legal Provisions

Another objective of this audit was to verify that financial transactions were made in accordance with significant finance-related laws. The Bureau of Mediation Services is governed generally by Minn. Stat. Chapters 179 and 179A. These chapters create the agency and establish the general purpose for its financial transactions.

The Bureau of Mediation Services also is subject to certain general legal provisions which affect the financial management of most state agencies. For example, Minn Stat. Section 16A.275 requires the prompt deposit of receipts and Section 16A.15 Subd. 3 requires that funds be encumbered prior to obligation. Minn. Stat. Section 16A.055 provides the Commissioner of Finance with the authority to develop, provide instructions for, and manage the statewide accounting system. Finance policies 06:05:14-15 specify travel advance and employee travel expense regulations. Finance policy 07:04:21 requires employees to record their hours worked and leave taken on a daily basis. Minn. Stat. Section 43A.37 requires appointing authorities to certify that all employees in the payroll register are performing services as required by law. Minn. Stat. Section 43A.18 states that the compensation, terms and conditions of employment for all employees represented by bargaining units shall be governed solely by the collective bargaining agreements. Bargaining unit contracts applicable to the Bureau of Mediation Services include the Manager's Plan and the Commissioner's Plan.

Minn. Stat. Section 16B.04 authorizes the Commissioner of Administration to supervise and approve all state contracts and purchasing and to manage and control state property. Department of Administration policy and procedure statement ADM-188 regulates agency contracts. Department of Administration bulletin 7-206 governs purchasing. The Department of Administration FARMS policy specifies fixed asset policy. The Bureau of Mediation Services staff is also subject to the ethics provisions contained in Minn. Stat. Section 43A.38.

The management of the Bureau of Mediation Services is responsible for the agency's compliance with laws and regulations. In connection with our audit, we selected and tested transactions and records from the programs administered by the Bureau. The purpose of our testing of transactions was to obtain reasonable assurance that the Bureau of Mediation Services had, in all material respects, administered its programs in compliance with the aforementioned laws and regulations.

Conclusions

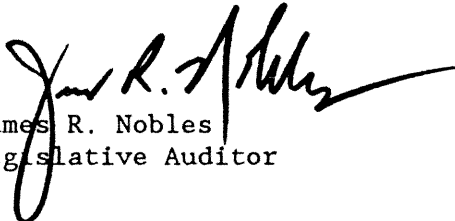
In our opinion, the Bureau of Mediation Services' system of internal accounting control in effect on May 2, 1989, taken as a whole, was sufficient to provide management with reasonable, but not absolute assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly.

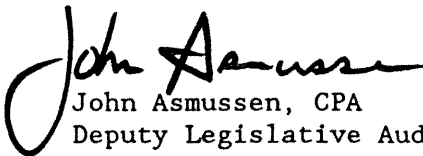
Section II, finding 1, represents a weakness in the Bureau's internal controls over fixed assets. We believe the weakness subjects the Bureau of Mediation Services' internal controls to an unnecessary financial risk and should be corrected. The current recommendation included in this report is presented to assist you in resolving the audit finding and in improving accounting procedures and controls. Progress on resolving this finding will be reviewed during the audit next year.

Senator John E. Brandl, Chairman
Members of the Legislative Audit Commission
Mr. Paul W. Goldberg, Commissioner
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The results of our testing of transactions and records indicate that the Bureau of Mediation Services complied with the aforementioned finance-related legal provisions. Nothing came to our attention in connection with our audit that caused us to believe that the Bureau of Mediation Services was not in compliance with other applicable legal requirements.

We would like to thank the Bureau of Mediation Services staff for their cooperation during this audit.


James R. Nobles
Legislative Auditor


John Asmussen, CPA
Deputy Legislative Auditor

END OF FIELDWORK: June 6, 1989

REPORT SIGNED ON: July 20, 1989

BUREAU OF MEDIATION SERVICES

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AUDIT PARTICIPATION

The following members of the Office of the Legislative Auditor prepared this report:

John Asmussen, CPA	Deputy Legislative Auditor
Tom Donahue	Audit Manager
Jean Mellett, CPA	Auditor-in-Charge
Steve Nartker	Auditor Intern

EXIT CONFERENCE

The finding and recommendations in this report were discussed with the following staff of the Bureau of Mediation Services on June 9, 1989:

Paul W. Goldberg	Commissioner
Deanna Matteson	Account Clerk

BUREAU OF MEDIATION SERVICES

I. INTRODUCTION

The Bureau of Mediation Services (BMS) is responsible for promoting a stable and positive labor management relationship in Minnesota's public, nonprofit, and private sectors. In addition to mediating labor disputes, the bureau determines appropriate collective bargaining units for employees, conducts elections, decides fair share fee challenge cases, handles arbitration referrals, and administers the area labor-management committee grant program. The Bureau of Mediation Services is under the supervision and control of a commissioner, who is appointed by the Governor for a term running concurrent with that of the Governor. During the audit period, the Commissioner was Paul W. Goldberg.

The Bureau of Mediation Services funds its activities with appropriations from the General Fund. General Fund appropriations for fiscal years 1986 through 1988 were \$1,231,700, \$1,229,700, and \$1,570,100, respectively. Personal services comprise approximately 69 percent of the bureau's total expenditures. The administration of area labor-management grants and BMS operations such as contractual services, equipment, and supplies comprise the remaining expenditures.

BUREAU OF MEDIATION SERVICES

II. CURRENT FINDING AND RECOMMENDATION

1. Bureau of Mediation Services fixed assets records need updating.

Bureau of Mediation Services staff have not conducted a complete physical inventory since September 1983. BMS staff indicated a partial inventory of new items was taken after moving to their new location in November 1987. However, records of this inventory are informal and do not indicate the date the inventory was taken.

Because a recent complete physical inventory has not been taken, the Bureau of Mediation Services FARMS listing contains a number of discrepancies:

- Seventeen items still appear on BMS's FARMS listing, despite being transferred to another agency.
- The FARMS listing inappropriately valued a chair at \$38,200. Its actual cost was \$382.
- The FARMS listing includes a copier valued at \$9,016. The copier was traded in for a new machine.

As a result, the FARMS list overstates the number of BMS assets by 51 percent. The list overstates the dollar amount of BMS assets by \$62,855 or 52 percent.

RECOMMENDATION

- The Bureau should conduct a complete physical inventory of assets and update the FARM system.

BMS

BUREAU OF MEDIATION SERVICES

State of Minnesota

July 18, 1989

James R. Nobles, Legislative Auditor
Veterans Service Building
St. Paul, Minnesota 55155

Dear Mr. Nobles:

This is to acknowledge receipt of the draft audit report for audit work done with our agency for the three year period ending June 30, 1989.

We have no objections to the contents of the report, and have already implemented the recommendation contained therein.

Sincerely,


PAUL W. GOLDBERG
Commissioner