

**DEPARTMENT OF HUMAN RIGHTS
FINANCIAL AUDIT
FOR THE YEAR ENDED JUNE 30, 1990**

MAY 1991

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

91-29

DEPARTMENT OF HUMAN RIGHTS

FINANCIAL AUDIT FOR THE YEAR ENDED JUNE 30, 1990

Public Release Date: May 8, 1991

No. 91-29

OBJECTIVES:

- **EVALUATE INTERNAL CONTROL STRUCTURE:** State employee payroll; professional/technical service contracts; state employee travel; administrative disbursements; and receipts for federal programs.
- **TEST COMPLIANCE WITH CERTAIN FINANCE-RELATED LEGAL PROVISIONS.**

CONCLUSIONS:

We found three areas where the internal control structure needed improvement:

- Controls over receipts processing need improvement for civil penalties and human rights day collections. These receipts should be reconciled on a receipts log and deposited promptly.
- Human Rights staff paid two contract invoices without proper support. The department should ensure that all contract expense reimbursements are properly supported by receipts.
- Controls over the annual employee awards banquet require improvement. The department should work with the Departments of Finance and Employee Relations to develop a more formalized annual awards banquet, including more appropriate types of awards.

We found that the department had complied with finance-related legal provisions except for the state statute requiring prompt deposit of receipts, as discussed above.

Contact the Financial Audit Division for additional information.
(612) 296-1730



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

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

JAMES R. NOBLES, LEGISLATIVE AUDITOR

Representative Ann Rest, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. A. F. Gallegos, Commissioner
Department of Human Rights

Audit Scope

We have conducted a financial related audit of the Department of Human Rights as of and for the fiscal year ended June 30, 1990. Our audit was limited to only that portion of the State of Minnesota financial activities attributable to the transactions of the Department of Human Rights, as discussed in the Introduction. We have also made a study and evaluation of the internal control structure of the Department of Human Rights in effect at December 30, 1990.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial activities attributable to the transaction of the Department of Human Rights are free of material misstatements.

As part of our study and evaluation of the internal control structure, we performed tests of the Department of Human Rights' compliance with certain provisions of laws, regulations, contracts, and grants. However, our objective was not to provide an opinion on overall compliance with such provisions.

Management Responsibilities

The management of the Department of Human Rights is responsible for establishing and maintaining an internal control structure. This responsibility includes compliance with applicable laws, regulations, contracts, and grants. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that:

- assets are safeguarded against loss from unauthorized use or disposition;
- transactions are executed in accordance with applicable legal and regulatory provisions, as well as management's authorization; and

- transactions are recorded properly on the statewide accounting system in accordance with Department of Finance policies and procedures.

Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

Internal Control Structure

For purposes of this report, we have classified the significant internal control structure policies and procedures in the following categories:

- state employee payroll,
- professional/technical service contracts,
- state employee travel,
- administrative disbursements, and
- receipts - federal programs.

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

Conclusions

Our study and evaluation disclosed the conditions discussed in findings 1-3, involving the internal control structure of the Department of Human Rights. We consider these conditions to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data.

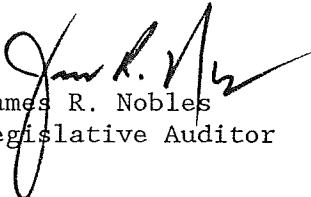
A material weakness is a reportable condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial activities being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We believe none of the reportable conditions described above is a material weakness.

We also noted other matters involving the internal control structure and its operation that we reported to the management of the Department of Human Rights at the exit conference held on April 15, 1991.

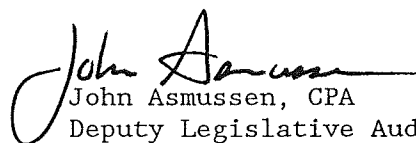
Representative Ann Rest, Chair
Members of the Legislative Audit Commission
Mr. A. F. Gallegos, Commissioner
Page 3

The results of our tests indicate that, except for the issue discussed in finding 1, with respect to the items tested, the Department of Human Rights complied, in all material respects, with the provisions referred to in the audit scope paragraphs. With respect to items not tested, nothing came to our attention that caused us to believe that the Department of Human Rights had not complied, in all material respects, with those provisions.

This report is intended for the information of the Legislative Audit Commission and management of the Department of Human Rights. This restriction is not intended to limit the distribution of this report, which was released as a public document on May 8, 1991.



James R. Nobles
Legislative Auditor



John Asmussen, CPA
Deputy Legislative Auditor

END OF FIELDWORK: February 13, 1991

REPORT SIGNED ON: May 2, 1991

DEPARTMENT OF HUMAN RIGHTS

TABLE OF CONTENTS

	<u>Page</u>
I. INTRODUCTION	1
II. CURRENT FINDINGS AND RECOMMENDATIONS	2
AGENCY RESPONSE	4

AUDIT PARTICIPATION

The following staff from the Office of the Legislative Auditor prepared this report:

John Asmussen, CPA	Deputy Legislative Auditor
Renee Redmer	Audit Manager
Mary Annala	Auditor-in-Charge
Amy Jorgenson	Auditor

EXIT CONFERENCE

The findings and recommendations in this report were discussed with the following staff from the Department of Human Rights on April 15, 1991:

A. F. Gallegos	Commissioner
Gary Belisle	Management Services Director
Bill Smith	Business Manager

DEPARTMENT OF HUMAN RIGHTS

I. INTRODUCTION

The Minnesota Department of Human Rights operates under Minn. Stat. Chapter 363. The department is a service and regulatory agency that is responsible for the implementation and enforcement of the Minnesota Human Rights Act. The primary mission of the department is the investigation and resolution of charges of discriminatory practices as set forth in the Human Rights Act. The primary clients of the department are the citizens of the State of Minnesota alleging violations of their human rights. The discriminatory actions may include such areas as employment, housing, credit, public accommodations, public service and education.

The department has two divisions, Enforcement and Management Services. The Enforcement Division resolve charges of discriminatory practices, provide education to prevent discrimination and administer the contract compliance provisions of the Act. Probable cause charges not resolved are referred to the Office of the Attorney General for litigation. Management Services provides administrative support, including staff training, data processing, accounting, clerical support and personnel services.

The Commissioner, Mr. A. F. Gallegos, succeeded Mr. Stephen Cooper, on February 8, 1991 as the administrative head of the Department of Human Rights. Mr. Cooper had been Commissioner since August 3, 1987. The Department of Human Right's financial activities are funded mainly through state appropriations and federal reimbursements. Departmental revenues and expenditures for the year ended June 30, 1990 are as follows:

Revenues:

Federal reimbursements -	
U.S. Equal Employment Opportunity Commission	\$276,800
U.S. Department of Housing and Urban Development	38,588
Other state revenues	<u>46,770</u>
Total Revenues	<u>\$362,158</u>

Expenditures:

Personal services	\$2,287,072
Professional and technical services	189,991
Travel expenses	25,892
Other administrative expenses	<u>384,646</u>
Total Expenditures	<u>\$2,887,601</u>

Source: Statewide Accounting System, Estimated Actual Receipts Report and Manager's Financial Report as of September 1, 1990.

DEPARTMENT OF HUMAN RIGHTS

II. CURRENT FINDINGS AND RECOMMENDATIONS

1. PRIOR AUDIT FINDING NOT RESOLVED: Controls over receipts processing need improvement.

We identified two weaknesses in the processing of civil penalties and human rights day receipts. First, the department does not promptly deposit receipts with the State Treasurer. We tested 22 deposits which consisted of civil penalties and human rights day receipts. From the 22 deposits tested, six had not been deposited promptly as required by statute. Also, three deposits totaling \$450, \$540, and \$3,000 had delays of three working days. Three deposits totaling \$600, \$900, and \$25,000 had delays of four working days. Minn. Stat. 16A.275 requires prompt deposit of daily receipts over \$250. Compliance with the statute helps to safeguard assets from possible loss.

Second, the department does not record civil penalty checks on a receipts log. The respondent may be ordered by a court to pay the civil penalties due to the results of a discrimination case. Currently, civil penalties collected are hand delivered to Human Rights for deposit. The department has not recorded these civil penalties on a receipts log. To be an effective control, the department should record all receipts in a log, whether received by mail or hand delivered. Because civil penalty checks are normally for large dollar amounts and are of a sensitive nature, they should be recorded in a log to document receipt and subsequent deposit.

RECOMMENDATIONS

- Receipts should be deposited promptly as required by Minn. Stat. Section 16A.275.
- The department should record all receipts in a log.

2. Human Rights staff paid two contract invoices without proper support.

A contractor was reimbursed for travel without proper documentation to support the travel expenses incurred. The contractor received travel reimbursements totaling \$2,500 from two invoices submitted to the Attorney General's Office for travel expenses provided in association with expert testimony provided on a case. The Attorney General's Office approved the invoices and submitted them to Human Rights for payment. Human Rights staff paid the invoices without obtaining receipts documenting the expenses incurred. Without receipts the department is not assured that the travel expenses claimed were accurate and within the state guidelines for travel reimbursements.

Department of Finance Policy and Procedure 06:05:15 requires receipts to support the reimbursement of travel expenses. However, for the \$2,500 reimbursements, only statements from the contractor summarizing the

DEPARTMENT OF HUMAN RIGHTS

expense categories were submitted, such as a \$1,500 reimbursement for a visit to St. Paul. No other supporting documentation was submitted to show the propriety of the specific expense reimbursements claimed.

RECOMMENDATION

- Human Rights should ensure that all contract expense reimbursements are properly supported by receipts.

3. Controls over the annual employee awards banquet require improvement.

The department incurred some questionable expenses for its annual employee awards banquet. During fiscal year 1990 the department sponsored an employee appreciation picnic and presented awards to all employees. The event cost \$2,783. It was financed with \$876 from the department head expense account and \$1,907 from the state appropriation account. The department paid \$915 for food and \$1,868 for employee awards. The awards, purchased from a local wholesale vendor by Human Rights staff, consisted of such items as carry on luggage, shower massagers, dustbusters, lanterns, grills, golf balls, woks, coffeemakers, crock pots, sleeping bags, etc. The food for the employee appreciation picnic was purchased from a local grocery store and restaurants.

We question the public purpose provided by the types of items purchased by Human Rights and the practice of purchasing an item for every employee in the department. We understand that the state's special expense policy provides for employee awards for outstanding accomplishments or service. We also understand that annual awards banquets honor employees for specific accomplishments or services to the state. However, other state agencies acknowledge certain employees with plaques, certificates, or other more formal presentations.

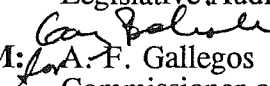
RECOMMENDATION

- The department should work with Finance and Employee Relations to develop a more formalized annual awards banquet, including more appropriate types of awards.

State of Minnesota
OFFICE MEMORANDUM

DEPARTMENT OF HUMAN RIGHTS

DATE: April 23, 1991

TO: James R. Nobles
Legislative Auditor
FROM:  A. F. Gallegos
Commissioner of Human Rights

SUBJECT: Legislative Audit Findings

I am writing to respond to the findings and recommendations contained in the draft audit report submitted to the Department of Human Rights on April 9, 1991 and discussed in the exit conference on April 15, 1991.

1. **Finding:**

Controls over receipts processing need improvement.

Recommendations:

- a. Receipts should be deposited as required by Minn. Stat. Section 16A.275.
- b. The department should record all receipts in a log.

Department Response:

The department concurs with the finding and will ensure that these two recommendations are implemented.

The problems which elicited the two recommendations are different and will have to be dealt with as separate issues.

- a. The department's accounting staff consists of only two individuals who both perform a multitude of duties. The account clerk is assigned the responsibility to process deposits but there are times when she may be absent or tied up meeting other deadlines. At these times, deposits may be delayed. We will ensure that the business manager, who supervises the accounting function, will assume responsibility to process deposits at such times as the account clerk may be unable to do so in a timely manner.
- b. In response to a prior audit finding, the department set up a system of logging departmental receipts. This system requires the logging of all cash and checks received by the department, by mail or other means. It was intended that the system cover all cash and checks received, whether the department was the recipient of the funds or not. This latter element was not clear to the staff involved in the case of checks for civil penalties, which are usually hand carried to accounting staff by Attorney General staff and are deposited to the General

Fund but not to departmental accounts. The business manager and account clerk have been instructed to log these checks and indicate in the disposition column that the check has been forwarded for deposit.

2. **Finding:**

Human Rights staff paid two contract invoices without proper support.

Recommendation:

Human Rights should ensure that all contract expense reimbursements are properly supported by receipts.

Department Response:

The department concurs with the finding and will ensure that the recommendation is implemented.

This problem involves contracts administered by the Attorney General's office but paid by the Department of Human Rights from its funds. Department staff assumed that invoices approved for payment by the Attorney General's office had been verified and could be paid. In the future, invoices not fully supported by documentation will be returned to the Special Assistant Attorney General who authorized payment to obtain the necessary documentation.

3. **Finding:**

Controls over the annual awards banquet require improvement.

Recommendation:

The department should work with Finance and Employee Relations to develop a more formalized annual awards banquet, including more appropriate types of awards.

Department Response:

The department has some disagreement with the finding but will work to implement the recommendation. Future employee recognition events will be structured in such a way that the stated policies and procedures of the state and the concerns of the Legislative Auditor and the Departments of Finance and Employee Relations are satisfied.

The department, however, does contest the implication that the previous events were unauthorized and inappropriate. It is our opinion that the Special Expense policy of the state, in effect at the time of the event, can be construed to allow the event as it was conducted. The department's position on this matter is stated in the response of former Commissioner of Human Rights Stephen W. Cooper, which you have.

Further, staff of the department discussed this event with staff of the Departments of Finance and Employee Relations prior to the first such event being held. Unfortunately, these conversations were not documented at the time they occurred so, while department staff remember being left with the impression there was nothing wrong with the event as it was conducted, staff of the Departments of Finance and Employee Relations may not recall conversations or may recall them differently. It is also possible that the philosophy of the Departments of Finance and Employee Relations has evolved and been clarified in the intervening period so that their current interpretation may not have been as fully formed two years ago.

As stated previously, the department will abide by the interpretations of policy and statements of intent passed on from the Departments of Finance and Employee Relations by the auditors and will not, in the future, conduct any event which may be construed as not adhering to the rules, regulations, policies and practices of the state.

The staff of the department and I would like to commend the auditors for conducting a thorough and professional audit and thank them for their cooperativeness, patience, and positive attitude during the audit.

If you need anything further on these matters, please let us know.