

**DEPARTMENT OF EMPLOYEE RELATIONS  
FINANCIAL AUDIT  
FOR THE YEAR ENDED JUNE 30, 1991**

---

**MARCH 1992**

---

Financial Audit Division  
Office of the Legislative Auditor  
State of Minnesota



# **DEPARTMENT OF EMPLOYEE RELATIONS**

## **FINANCIAL AUDIT FOR THE YEAR ENDED JUNE 30, 1991**

Public Release Date: March 26, 1992

No. 92-18

### **OBJECTIVES:**

- **EVALUATE INTERNAL CONTROL STRUCTURE:** Insurance Trust Fund receipts and disbursements, Workers' Compensation receipts and disbursements, the centralized payroll system, and Dependent Care Expense Account receipts and disbursements.
- **TEST COMPLIANCE WITH CERTAIN FINANCE-RELATED LEGAL PROVISIONS.**

### **CONCLUSIONS:**

We found one area where the internal control structure needed improvement.

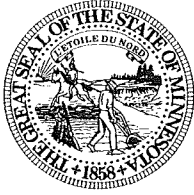
- The University of Minnesota was deducting an unauthorized administrative fee from its Minnesota Mutual Life Insurance premium payment to the department.

We found three areas where the department had not complied with finance-related legal provisions:

- The department did not amend certain provisions of its financial agreement with Blue Cross Blue Shield, as provided within the agreement.
- The department overpaid a contractor for consultant services.
- The department was not depositing certain Employee Insurance Fund receipts on a timely basis.

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





STATE OF MINNESOTA

**OFFICE OF THE LEGISLATIVE AUDITOR**

CENTENNIAL 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

Ms. Linda Barton, Commissioner  
Department of Employee Relations

## **Audit Scope**

We have conducted a financial related audit of the Department of Employee Relations as of and for the year ended June 30, 1991. Our audit was limited to only that portion of the State of Minnesota financial activities attributable to the transactions of the Department of Employee Relations, as discussed in the Introduction. We have also made a study and evaluation of the internal control structure of the Department of Employee Relations in effect at June 30, 1991.

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 transactions of the Department of Employee Relations are free of material misstatements.

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

## **Management Responsibilities**

The management of the Department of Employee Relations is responsible for establishing and maintaining an internal control structure. This responsibility includes compliance with applicable laws and regulations. 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:

- Employee Insurance Fund receipts and disbursements;
- Worker's Compensation receipts and disbursements;
- Dependent Care Expense Account receipts and disbursements; and
- Centralized Payroll System.

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. We also assessed control risk.

### **Conclusions**

In our opinion, except for the issue raised in finding 3, the internal control structure of the Department of Employee Relations in effect at June 30, 1991, taken as a whole, was sufficient to meet the objectives stated above insofar as those objectives pertain to the prevention or detection of errors or irregularities in amounts that would be material in relation to the financial activities attributable to transactions of the Department of Employee Relations.

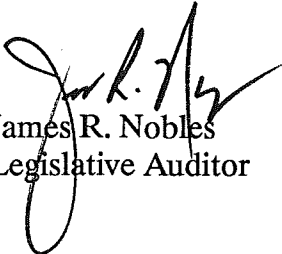
The results of our tests indicate that, except for the issues discussed in findings 1, 2 and 4, with respect to the items tested, the Department of Employee Relations complied, in all

Representative Ann Rest, Chair  
Members of the Legislative Audit Commission  
Ms. Linda Barton, Commissioner  
Page 3

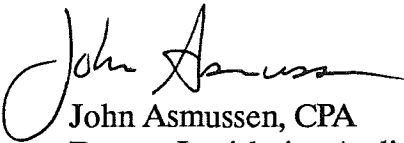
material respects, with the provisions referred to in the audit scope paragraphs. With respect to items not tested, nothing came to our attention that caused us to believe that the Department of Employee Relations had not complied, in all material respects, with those provisions.

This report is intended for the information of the Legislative Audit Commission and management of the Department of Employee Relations. This restriction is not intended to limit the distribution of this report, which was released as a public document on March 26, 1992.

We would like to thank the Department of Employee Relations staff for their cooperation during this audit.



James R. Nobles  
Legislative Auditor



John Asmussen, CPA  
Deputy Legislative Auditor

End of Fieldwork: January 17, 1992

Report Signed On: March 20, 1992





## Department of Employee Relations

---

### Table of Contents

---

	Page
Introduction	1
Current Findings and Recommendations	2
Agency Response	5

### Audit Participation

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

John Asmussen, CPA	Deputy Legislative Auditor
Tom Donahue, CPA	Audit Manager
Michael Hassing	Auditor-in-Charge
Jean Mellett, CPA	Staff Auditor
Carl Otto, CPA	Staff Auditor
Dale Ogren	Audit Intern

### Exit Conference

The findings and recommendations included in this report were discussed with the following staff of the Department of Employee Relations at the Exit Conference held on February 13, 1992:

Linda Barton	Commissioner
Louis Clark	Deputy Commissioner
Richard Thorkee	Administrative Services Manager
Robert Cooley	Benefits Manager
Robert Erickson	Accounting Supervisor
Ed Anderson	Accounting Supervisor



# Department of Employee Relations

---

## Introduction

---

The Department of Employee Relations (DOER) is the central personnel staff agency for the executive branch of state government. Its duties include personnel administration and labor relations. In addition, the department operates the insurance and worker's compensation programs for state and University of Minnesota employees.

The personnel bureau is responsible for recruiting, examining, classifying, compensating, and training employees. It also administers the statewide affirmative action program. The labor relations bureau negotiates collective bargaining agreements and develops compensation plans. The department's administrative function operates the personnel system, administers statewide payroll certifications, and provides support services.

DOER also negotiates with private insurance companies to underwrite the medical, dental, and life insurance plans offered to employees. The department processes enrollments, collects premiums, and pays insurance companies. Premium receipts were \$184,176,745 in fiscal year 1991. Disbursements to insurance carriers totalled \$162,737,729 for the same period.

The department determines and pays worker's compensation claims for state employees. DOER paid \$20,987,807 in worker's compensation claims in fiscal year 1991. These costs are billed to the employing agency. In fiscal year 1991, DOER received \$22,748,822 in reimbursements. Part of the worker's compensation reimbursements are for administrative costs.

As another benefit to employees, DOER offers a dependent care expense program. This program allows participants to have a portion of their pay deducted on a pre-tax basis to be applied toward the expenses of day care for children or other dependents. DOER contracts with a third party provider to administer this program. In fiscal year 1991, DOER collected payroll deductions of \$3,219,015 and made payments of \$3,180,423 to the contractor.

DOER serves 132 operating agencies, and approximately 40,000 employees. It also responds to the general public seeking information about employment, and organizations involved in human and civil rights issues. The governor appointed Linda Barton as the Commissioner of Employee Relations on January 7, 1991.

## Department of Employee Relations

---

### Current Findings and Recommendations

---

**1. The department did not amend certain provisions of its financial agreement with Blue Cross Blue Shield, as provided within the agreement.**

The department changed provisions in its financial agreement with Blue Cross and Blue Shield (BCBS) without a written instrument signed by duly authorized representatives of BCBS and the state. Inadequate documentation exists to support rate increases for fixed administrative fees and expected claim rates. The department had a memorandum from BCBS in which the new rates were stated. The department did not have written evidence that it accepted the new rates. Department officials told us that they had verbally accepted the rate increases.

Many sections of the state's agreement with BCBS specify the process for changing rates and provisions in subsequent contract years. Section 11.2 provides the general terms and conditions for contract renewal. It says new rates shall be annually negotiated. Sections 5 and 6 specifically address changes in the fixed monthly administrative fee and expected claims rate. According to these sections, rates are "subject to change by the mutual agreement of the parties for subsequent contract years." Furthermore, Section 23 states, "no part of this agreement may be waived, modified, or supplemented in any way except by a written instrument signed by duly authorized representatives of BCBSM and the state."

#### *Recommendation*

- *The Department of Employee Relations should execute written amendments to document changes in the financial agreement with Blue Cross and Blue Shield.*

**2. The department overpaid a contractor for consultant services.**

The department paid increased hourly rates to a contractor, Deloitte and Touche, prior to amending its contract. Deloitte and Touche have provided consultant services and benefit analysis to the department for several years. The department executed a new contract with Deloitte and Touche to increase rates before its current contract expired. The new contract was effective July 1, 1990. The old contract originally terminated on September 30, 1990.

Deloitte and Touche significantly increased its rates under the new contract with the department. The revised rate schedule increased the highest hourly rate from \$165 to \$300. Billings for clerical work increased from \$20 to \$40 per hour. The department was billed for services rendered prior to the effective date of the new contract at the new rates. The department paid \$32,389 for services provided from May 22, 1990 through June 30, 1990,

## Department of Employee Relations

The department may not pay for services at revised rates without executing a written amendment. The department's original contract, executed on the standard state contract form, was still in effect during the service period.

Furthermore, we question the department's decision to renegotiate this contract. It is not in the state's best interest to increase rates on a long-term contract three months prior to its expiration. We are not aware of any unusual circumstances that justified the department to renegotiate these contract rates. Further, the department did not cite any additional benefits it gained as a result of paying the higher fees. During the period July 1 through September 22, 1990, the department paid an additional \$3,864 for services originally contracted for at lower rates.

### *Recommendations*

- *The department should obtain a \$4,244 refund from Deloitte and Touche.*
- *The department should enforce contractual provisions and renegotiate terms only when justified.*

### **3. Controls over some Employee Insurance Fund administrative fees need to be improved.**

The department does not review documentation supporting receipts to determine if correct amounts are collected. The University of Minnesota was deducting an unauthorized administrative fee of .005 percent from its Minnesota Mutual Life Insurance premium payment. As a result, the department was not collecting the full premium. The department calculated that the University owes the insurance fund an additional \$41,804 for premiums from July 1987 through August 1991. Improved procedures will strengthen the department's ability to promptly and accurately record transactions and detect errors.

### *Recommendation*

- *The department should obtain an additional \$41,804 premium payment from the University of Minnesota.*

### **4. Some Insurance Fund receipts are not deposited on a timely basis.**

The department does not always deposit its receipts timely. For example, Employee Insurance Fund receipts totalling \$35,621 on July 11, 1991 were not promptly deposited. These receipts included checks dated June 24 through July 5, 1991. According to Minn. Stat. Section 16A.275, agencies are to deposit receipts daily when the total exceeds \$250.

## Department of Employee Relations

The funds held were insurance premiums collected from some individual billing units. The department collects these receipts bi-weekly but only deposits monthly. Further examination indicated that another deposit, dated December 4, 1990, included \$11,120 of bi-weekly insurance premiums from a billing unit for the pay periods ended November 15 and November 30, 1990. There is a greater risk of loss or theft of undeposited receipts.

### *Recommendation*

- *Receipts should be deposited daily when the aggregate total exceeds \$250, per Minn. Stat. Section 16A.275.*

State of  
Minnesota  
DEPARTMENT  
OF EMPLOYEE  
RELATIONS

Administrative Services  
Compensation  
Equal Opportunity  
Health & Benefits  
Information Services  
Labor Relations  
Safety/Workers' Compensation  
Staffing Services  
Training & Development

March 18, 1992

James Nobles  
Legislative Auditor  
1st Floor  
Centennial Building  
658 Cedar Street  
St. Paul, MN 55155

Dear Mr. Nobles:

Enclosed is the response of the Department of Employee Relations to the findings and recommendations from your audit report for the year ending June 30, 1991.

We will work toward implementing the recommendations made by your audit as quickly as possible.

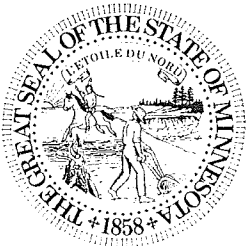
I want to thank you and your staff for your assistance and cooperation.

Sincerely,

*Linda M. Barton / LMB*

Linda M. Barton  
Commissioner

sf/1373



job information line  
(612) 296-2616

TDD (612) 297-2003  
an equal opportunity employer

200 Centennial Office Building, 658 Cedar Street, St. Paul, MN 55155

**Department of Employee Relations  
Response to Audit Findings  
and Recommendations**

**Recommendation #1:** The Department of Employee Relations should execute written amendments to document changes in the financial agreement with Blue Cross and Blue Shield.

***DOER Response:***

The department will document changes in the financial agreement with Blue Cross and Blue Shield through a written instrument signed by authorized representatives of Blue Cross and Blue Shield and the state.

**Recommendation #2a:** The department overpaid a contractor for consultant services.

***DOER Response:***

It was the intention of the department to amend both contracts with the consultant, Deloitte and Touche, for services provided under the PEIP and State contract. Services provided under the terms of these contracts are identical as were the reimbursement rates for services provided for the terms specified. However, the intent did not coincide with the actions and the amendment for the State contract was overlooked, where as the PEIP contract was approved on May 22, 1991. To rectify this error, the department has initiated an amendment for the state contract as recommended by the Department of Administration Contract Management Division. Also because this was a violation of M.S. 16A, a letter of explanation will also be prepared to accompany the amendment. To prevent future occurrence, the department will review proper contract and amendments procedures with the appropriate personnel responsible for contract administration.

**Recommendation #2b** The department should enforce contractual provisions and renegotiate terms only when justified.

***DOER Response:***

Both contracts were originally written with the consulting firm, Touche Ross. In 1990, Touche Ross merged with another accounting firm, Deloitte, Haskins and Sells. As a result of the merger and since the fee schedule had been in place for some time, the department agreed to a new fee schedule more in line with the rest of Deloitte and Touche billing to public sector clients. In the future, the department will not negotiate new contract fees prior to the expiration date.



**Recommendation #3:** The department should obtain an additional \$41,804.00 premium payment from the University of Minnesota.

***DOER Response:***

The Department has received a letter from the University of Minnesota stating that the withheld premium will be repaid on or before April 30, 1992. The audit report states that the time period relating to the fee is from July 1987 through August 1991. The Minnesota Mutual contract for which the fee relates and the administration of the insurance fund began, should start on October 1987, the beginning of the insurance contract year. This will result in a payment from the University of \$40,132.00 for the period October 1987 through August 1991, plus additional amounts owed for September 1991. Improved procedures will be established to support receipts and detect errors.

**Recommendation #4:** Receipts should be deposited daily when the aggregate total exceeds \$250.00, per M.S., Section 16A.275.

***DOER Response:***

DOER has instituted a procedure to deposit all receipts daily when the total exceeds \$250.00.

sf/1373