

**BUREAU OF MEDIATION SERVICES  
FINANCIAL AUDIT  
FOR THE THREE YEARS ENDED JUNE 30, 1991**

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**SEPTEMBER 1992**

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

**92-60**

Centennial Office Building, Saint Paul, MN 55155 • 612/296-4708

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**BUREAU OF MEDIATION SERVICES**  
**FINANCIAL AUDIT**  
**FOR THE THREE YEARS ENDED JUNE 30, 1991**

Public Release Date: September 11, 1992

No. 92-60

**OBJECTIVES:**

- EVALUATE INTERNAL CONTROL STRUCTURE: employee payroll, grants-in-aid to Labor Management Committees, office rent and travel expenditures.
- TEST COMPLIANCE WITH CERTAIN FINANCE-RELATED LEGAL PROVISIONS.

**CONCLUSIONS:**

We found the internal control structure to be effective.

We found one area where the Bureau of Mediation Services had not complied with finance-related legal provisions:

- Mediation Services had made a grant payment in excess of that allowed by statute.

We referred this issue to the Attorney General for resolution.

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

Mr. Peter Obermeyer, Commissioner  
Bureau of Mediation Services

## **Audit Scope**

We have conducted a financial related audit of the Bureau of Mediation Services for the three fiscal years 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 Bureau of Mediation Services, as discussed in the Introduction. We have also made a study and evaluation of the internal control structure of the Bureau of Mediation Services in effect as of February 1992.

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 Bureau of Mediation Services are free of material misstatements.

As part of our study and evaluation of the internal control structure, we performed tests of the Bureau of Mediation Services' 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 Bureau of Mediation Services 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;

Representative Ann Rest, Chair  
Members of the Legislative Audit Commission  
Mr. Peter Obermeyer, Commissioner  
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- 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 the purposes of this report, we have classified the significant internal control structure policies and procedures in the following categories:

- payroll;
- grants-in-aid to Labor-Management Committees;
- office rents; and
- travel expenditures.

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**

In our opinion, the internal control structure of the Bureau of Mediation Services in effect during February 1992, 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 Bureau of Mediation Services.

However, we noted certain matters involving the internal control structure and its operation that we reported to the management of the Bureau of Mediation Services at the exit conference held on July 16, 1992.

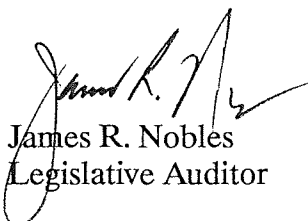
Except for the matter discussed in finding 1, the results of our tests indicated that, with respect to the items tested, the Bureau of Mediation Services complied, in all material respects, with the provisions referred to in the audit scope paragraphs. With respect to items not tested, nothing came to our attention that caused us to believe that the Bureau of Mediation Services had not complied, in all material respects, with those provisions.

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Members of the Legislative Audit Commission  
Mr. Peter Obermeyer, Commissioner  
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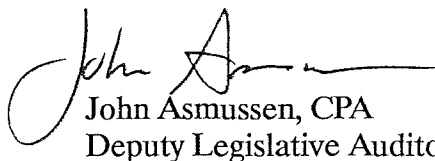
Pursuant to Minn. Stat. Section 3.975, finding 1 shall be referred to the Attorney General. The Attorney General has the responsibility to ensure the recovery of state funds and, in fulfilling that role, may negotiate the propriety of individual claims.

This report is intended for the information of the Legislative Audit Commission and management of the Bureau of Mediation Services. This restriction is not intended to limit the distribution of this report, which was released as a public document on September 11, 1992.

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: April 28, 1992

Report Signed On: September 4, 1992





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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, CPA	Audit Manager
Lori Pellicci, CPA	Audit Supervisor
Steve Pyan, CPA	Audit Staff
Amy Jorgenson	Audit Staff

### Exit Conference

The findings and recommendations in this report were discussed with the following staff of the Bureau of Mediation Services on July 16, 1992:

Peter Obermeyer	Commissioner
Deanna Matteson	Accounting Officer



## Bureau of Mediation Services

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### Introduction

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The Bureau of Mediation Services 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. Paul Goldberg's term as commissioner ended December 31, 1990. Peter Obermeyer was appointed commissioner as of March 4, 1991.

The following schedule summarizes certain of the agency expenditures for the fiscal years ended June 30, 1991, 1990, and 1989. The General Fund appropriations finance agency operations.

	Fiscal Year <u>1991</u>	Fiscal Year <u>1990</u>	Fiscal Year <u>1989</u>
Payroll	\$1,154,638	\$995,216	\$1,050,852
Grants-in-Aid	186,024	109,600	187,500
Rents - Office	99,378	94,639	88,636
Travel	80,226	100,925	93,640
Other	283,219	266,437	312,531

Source: Statewide Accounting System, Manager's Financial Report.

## Current Finding and Recommendation

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### 1. The Bureau of Mediation Services made a grant overpayment.

In 1989 the Bureau of Mediation Services made an overpayment while administering the Labor-Management Committee (LMC) program. The targeted LMC received its full award even though it did not meet the nonstate sources revenue requirements.

Minn. Stat. Sections 179.81-.85 provides for the establishment and partial state funding of area labor-management committees. Multiple employers and labor organizations form and compose these committees. They may be formed within a geographic area or a particular statewide employment sector. The committees' primary purpose is to improve labor and management relations, while promoting economic development.

The statutes direct that the bureau administer an operational grant program. The bureau has established grant program guidelines and an annual application process. Minn. Stat. Section 179.85 sets the funding limitation as follows:

*"in the first year, 90 percent state and 10 percent nonstate; in the second year, 80 percent state and 20 percent nonstate; in the third year and beyond, 50 percent state and 50 percent nonstate."*

The bureau awarded a \$35,000 grant to the Duluth Area Labor Management Association for the calendar year 1989. This LMC was required to match the 50 percent state grant funds. However, the LMC was able to raise only \$22,483 for 1989. As a result, the bureau overpaid it by \$12,517.

The bureau realized, after reviewing the financial statements, that an overpayment had occurred. However, the bureau decided not to pursue a repayment. Nor did it consider recovering the overpayment by reducing later years' awards. The LMC received grant payments in 1990 and 1991 of \$32,517 and \$33,433, respectively.

### *Recommendation*

- *Bureau of Mediation Services should pursue repayment of the 1989 overfunding, either through direct collection or adjustment of future payments.*



August 31, 1992

Mr. James Nobles, Legislative Auditor  
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St. Paul, Minnesota 55155

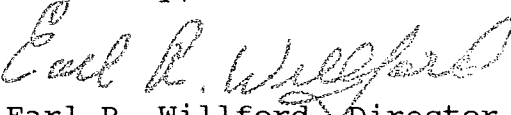
Dear Mr. Nobles:


Thank you for the opportunity to respond to the 1992 Legislative Auditor's Audit Report of the Bureau of Mediation Services. The following is submitted as a response to recommendation #1 of the audit report of 1992 of the Bureau of Mediation Services.

The overpayment in the amount of \$12,517 to the Duluth Area Labor-Management Council (Council) was found based on the Bureau's year end review in January of 1990. After an initial investigation with the grantee it was determined that the overpayment was a result of a good faith misinterpretation of the guidelines outlined in Minn. Stat. 179.85. The Council misinterpreted the standard requiring it match 50% of its total revenues with non - Bureau grant dollars.

At the time the misinterpretation of grant standards occurred the Council did not have funds to resolve the error. We would request that you reconsider your recommendation for repayment. The error resulted from a good faith misinterpretation of the grant program guidelines.

Sincerely,

  
Earl R. Willford, Director  
Labor-Management Programs

  
Peter Obermeyer  
Commissioner

ERW:mev

BCC: Mr. Thomas Donahue, Audit Manager