

DEPARTMENT OF EMPLOYEE RELATIONS

FINANCIAL AUDIT

FOR THE YEAR ENDED JUNE 30, 1992

MAY 1993

Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

93-22

SUMMARY

State of Minnesota

Office of the Legislative Auditor

Centennial Office Building • St. Paul, MN 55155

612/296-4708

DEPARTMENT OF EMPLOYEE RELATIONS

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Public Release Date: May 21, 1993

No. 93-22

OBJECTIVES:

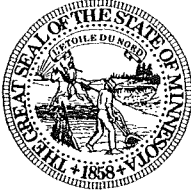
- EVALUATE INTERNAL CONTROL STRUCTURE: Employee Insurance Fund receipts and disbursements, Workers' Compensation receipts and disbursements, and the centralized payroll system.
- TEST COMPLIANCE WITH CERTAIN FINANCE-RELATED LEGAL PROVISIONS.

CONCLUSIONS:

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

- The department needs to strengthen controls over the collection and processing of Employee Insurance Fund receipts.

We found no departures from finance-related legal provisions.



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

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

JAMES R. NOBLES, LEGISLATIVE AUDITOR

Senator Phil Riveness, 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, 1992. 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, 1992.

As part of our audit, we reviewed general controls over selected aspects of the state's central payroll system. The Department of Employee Relations is responsible for transactions relating to the personnel function of the central payroll system.

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 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, 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 Employee Relations 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:

- Employee Insurance Fund revenues and expenditures; and
- Worker's Compensation revenues and expenditures.

Other material components of the state's annual financial report:

- 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, and we assessed control risk.

Conclusions


Our study and evaluation disclosed the condition discussed in finding 1 involving the internal control structure of the Department of Employee Relations. We consider this condition to be a reportable condition 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.

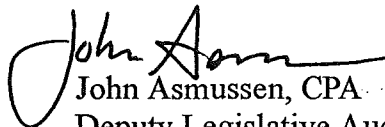
A material weakness is a reportable condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial activities being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We believe that the reportable condition described above is not a material weakness.

The conclusions of our review of general controls over selected aspects of the state's central payroll system affect the internal control structure of the state overall. The conclusions are included in the report of internal controls for the state as a whole, which is published in the State of Minnesota's Financial and Compliance Report on Federally Assisted Programs for the year ended June 30, 1992.

The results of our tests indicate that, with respect to the items tested, the Department of Employee Relations 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 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 May 21, 1993.


James R. Nobles
Legislative Auditor


John Asmussen, CPA
Deputy Legislative Auditor

End of Fieldwork: January 15, 1993

Report Signed On: May 17, 1993

Department of Employee Relations

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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
Joan Haskin, CPA	Staff Auditor
Carl Otto, CPA	Staff Auditor
Geniene Herrlich	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 16, 1993:

Chris Goodwill	Administrative Services Director
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Department of Employee Relations

Introduction

The Department of Employee Relations (DOER) is the central personnel staff agency for the executive branch of government. Its duties include personnel administration and labor relations. The department also 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 received general fund appropriations totaling \$8,529,000 in fiscal year 1992.

DOER also negotiates with private insurance companies to underwrite the medical, dental, and life insurance plans offered to employees. The department processes enrollment, collects premiums, and pays insurance companies. During fiscal year 1992, DOER continued to provide a Public Employee Insurance Program which provides public employees with insurance benefits and was developing a private employee plan.

The department determines and pays worker's compensation claims for state employees. These costs are billed to the employer. Part of the worker's compensation program includes training employers in safety.

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. Ms. Linda Barton, the Commissioner of DOER was appointed on January 7, 1991.

In fiscal year 1992, the department had revenues and expenditures in the following categories:

Revenues:

Employee Insurance Fund	\$191,185,610
Workers Compensation	24,959,883
Other Revenue	<u>4,193,518</u>
Total Revenue	<u>\$220,339,011</u>

Expenditures:

Employee Insurance Fund	\$175,950,387
Workers Compensation Claims	22,321,606
Other Expenditures	<u>4,082,363</u>
Total Expenditures	<u>\$212,354,356</u>

Source: SWA Allotment Balance and Managers Financial Report as of September 5, 1992.

Department of Employee Relations

Current Finding and Recommendation

1. Internal controls over Employee Insurance Fund receipts could be improved.

The accounting section needs to strengthen controls over the collection and processing of Employee Insurance Fund receipts. Currently, one person prepares and signs the deposit transmittals and is responsible for reconciling deposits to statewide accounting reports. The same person reconciles insurance system data to cash deposits. In addition, the accounting section has not reconciled Insurance Fund receipts to the statewide accounting system since November 1991. The department should reconcile receipts on a monthly basis. Proper separation of duties and prompt reconciliations increases the ability to detect errors and make timely corrections.

The department does not verify amounts of money received from Blue Cross Blue Shield, Minnesota Mutual, or the University of Minnesota. Blue Cross submits funds collected from early retirees. Minnesota Mutual sends an administrative fee based on premiums paid. The University sends premium payments for its employees participating in the trust fund accounts. The department should verify these receipts to ensure that all monies due the insurance fund are being collected. Improved procedures will strengthen the departments ability to record and verify transactions and detect errors promptly.

Recommendation

- *The department should review the current system of controls and make the necessary changes to ensure the prompt and accurate recording of Employee Insurance Fund receipts. This includes:*
 - *Proper separation of duties in the accounting section;*
 - *Prompt reconciliation of receipts to the statewide accounting system; and*
 - *Verifying the receipt of proper fees for various accounts.*

Minnesota
Department of
Employee
Relations

*Leadership and partnership in
human resource management*

May 13, 1993

James Nobles
Legislative Auditor
Centennial Office Building
658 Cedar Street
St. Paul, MN 55155

Dear Mr. Nobles:

This letter is in response to your draft audit report for Employee Relations. The report contained one finding for our agency concerning the internal control over Employee Insurance Fund receipts and the need to strengthen controls over the collection and processing of these receipts. Your staff made the following recommendations:

1. The department should have proper separation of duties in the Accounting Section.
2. The department should promptly reconcile receipts to the Statewide Accounting System.
3. The department should verify the receipt of fees and premiums for various accounts.

I agree that the internal control over insurance fund receipts needs to be improved. Comments to your recommendations are as follows:

Separation of Duties

We have implemented a policy requiring the Accounting Supervisor to sign all deposits and transmittals. Additionally, we are reviewing the overall accounting and insurance functions to determine if internal controls can be strengthened by restructuring these areas.

Reconciliation of Receipts

We are in the process of developing procedures to reconcile the insurance deposited to the Statewide Accounting System. We will then reconcile the insurance receipts to the accounting system for Fiscal Year 1993.

Verification of Fees

We will be reviewing various options to verify the receipt of fees from insurance carriers and some Independent Billing Units (IBUs). These audit options could range from applying desk review techniques to conducting an on-site compliance audit of the various carriers and IBUs. We believe the implementation of verification procedures could take up to 24 months, with a cost of \$135,000 as follows:

- Early Retirees Covered by Blue Cross/Blue Shield of Minnesota

Implementation of a verification procedure that starts for the 1995 plan year and costs between \$20,000 and \$30,000.

- Minnesota Mutual

Verification of fees for this plan could be implemented for the 1994 plan year and cost around \$5,000.

- University of Minnesota

Implementation of verification of eligibility and enrollment practices probably would not start until late in the 1995 and begin with the start of the 1996 plan year. The cost associated with verification of the University would be between \$75,000 and \$100,000.

Thank you for the opportunity to formally respond to the audit findings and recommendations contained in this audit report. If you have any questions, please contact Chris Goodwill at 296-7956.

Sincerely,



Linda Barton
Commissioner

sf/1896

cc: Chris Goodwill