

**DEPARTMENT OF EMPLOYEE RELATIONS**

**FINANCIAL AUDIT**

**FOR THE YEAR ENDED JUNE 30, 1993**

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**MAY 1994**

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Financial Audit Division  
Office of the Legislative Auditor  
State of Minnesota

**94-19**



# **DEPARTMENT OF EMPLOYEE RELATIONS**

## **FINANCIAL AUDIT FOR THE YEAR ENDED JUNE 30, 1993**

Public Release Date: May 4, 1994

No. 94-19

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### **OBJECTIVES:**

- **EVALUATE INTERNAL CONTROL STRUCTURE:** Employee Insurance Fund revenues and expenditures, 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:

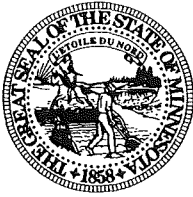
- The department needs to strengthen controls over the collection and processing of Employee Insurance Fund receipts.

We found no departures from finance-related legal provisions.

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

**FINANCIAL AUDIT DIVISION**





STATE OF MINNESOTA

**OFFICE OF THE LEGISLATIVE AUDITOR**

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

JAMES R. NOBLES, LEGISLATIVE AUDITOR

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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, 1993. 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, 1993.

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 Relation's 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 to be:

- Employee Insurance Fund revenues and expenditures.

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

- Centralized Payroll System.

For the internal control structure classifications 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 finding 1 involving the internal control structure of the Department of Employee Relations. 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 that the reportable condition described above is not a material weakness.

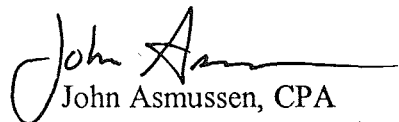
We also noted other matters involving the internal control structure and its operation that we reported to the management of the Department of Employee Relations at the exit conference held on March 23, 1994.

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, 1993.

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 4, 1994.

  
James R. Nobles  
Legislative Auditor

  
John Asmussen, CPA  
Deputy Legislative Auditor

End of Fieldwork: December 31, 1993

Report Signed On: April 28, 1994





## **Department of Employee Relations**

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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
Michael Hassing	Auditor-in-Charge
Marla Conroy, CPA	Staff Auditor
Joan Haskin, CPA	Staff Auditor
Geniene Herrlich	Staff Auditor

### **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 March 23, 1994:

Linda Barton	Commissioner
Chris Goodwill	Administrative Services Director
Ed Anderson	Accounting Supervisor



# Department of Employee Relations

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## Introduction

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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, classifying, 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 \$10,635,000 in fiscal year 1993. This was an increase of \$2,106,000 over fiscal year 1992. Most of this increase was attributed to a new appropriation from the Health Care Access Fund.

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 1993, DOER was also administering a Public Employee Insurance Program which provides public employees with insurance benefits and was implementing a private employee plan.

The department determines and pays worker's compensation claims for state employees. These costs are billed to the employing agency. 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, was appointed on January 7, 1991.

In fiscal year 1993, the department had revenues and expenditures as shown in Table 1:

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Table 1  
Revenues and Expenditures  
Fiscal Year 1993

Revenues:	
Employee Insurance Fund	\$197,428,684
Other Revenue	31,294,339
Total Revenue	<u>\$228,723,023</u>
Expenditures:	
Employee Insurance Fund	\$191,057,522
Other Expenditures	35,351,646
Total Expenditures	<u>\$226,409,168</u>

Source: SWA Allotment Balance and Manager's Financial Report as of September 3, 1993.

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## Current Finding and Recommendation

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**1. PRIOR AUDIT RECOMMENDATION: The department needs to improve internal controls over Employee Insurance Fund transactions.**

The department needs to strengthen controls over the processing of Employee Insurance Fund transactions. There is a financial risk that all insurance fund receipts are not deposited or recorded properly. The department could address these risks and assure the integrity of insurance fund receipts by completing timely reconciliations.

The accounting section did not reconcile insurance fund receipts to statewide accounting system reports at any time during fiscal year 1993. This weakness was reported to the department in a prior audit report. The department should reconcile receipts on a monthly basis. Prompt reconciliations increase the ability to detect errors and make timely corrections.

The department also does not perform an independent reconciliation of cash receipts collected from 4-week and COBRA participants. In order to continue their insurance coverage, participants in these programs remit monthly premiums and payment coupons to the department. The accounting clerk receives the checks and prepares the deposit. The clerk forwards the coupons to the Information Processing Center for recording on the insurance system. The same accounting clerk then reconciles insurance system data with the deposit amount. No one independent of the process verifies that these receipts, as recorded on the insurance system, were actually deposited. This increases the risk that errors or irregularities could occur and not be detected.

The department also does not verify that all insurance fund receipts are the correct amounts due. Blue Cross Blue Shield collects premiums for early retirees participating in the state insurance program and forwards them to the department. Likewise, Minnesota Mutual sends the department an administrative fee based on total premiums collected. The University of Minnesota sends premium payments for its employees participating in the trust fund accounts. These entities do not submit detailed documentation with their remittance. As a result, as reported in a prior audit report, the department does not verify that they are collecting all monies due to the insurance fund.

### *Recommendation*

- *The department should review the current system of controls and make the necessary changes to ensure prompt and accurate recording of Employee Insurance Fund transactions. This includes:*
  - *Timely and independent reconciliations of receipts to the statewide accounting and to the insurance systems; and*
  - *Verifying the accuracy of all amounts due to the fund.*

Minnesota  
Department of  
Employee  
Relations

*Leadership and partnership in  
human resource management*

April 26, 1994

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

Dear James Nobles:

Thank you for the opportunity to respond to your findings on the Department of Employee Relations for the year ending June 30, 1993.

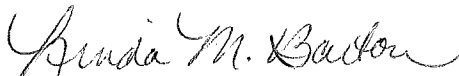
Your audit recommendation of improving internal controls over the Employee Insurance Fund transactions is currently being implemented.

We have contracted with Norwest Banks and National Remittance Center, who will collect and deposit approximately 90% of our receipts, score coupons for the insurance data and provide the collected data to update our database. By having a separate vendor, our agency will then be able to review and reconcile deposits made by Norwest, ensuring timely, independent and accurate deposits to the fund. The remaining 10% of the receipts will be handled through a separation of duties within our fiscal section.

We are currently looking at developing an audit procedure that would provide us with the necessary detailed documentation to verify all insurance fund receipts. This will, however, take us some time since we have to involve each of the participating groups and require they amend their reporting to us.

If you have any questions or need further information, please feel free to contact Chris Goodwill of my staff at 296-7956.

Sincerely,

  
Linda M. Barton  
Commissioner

j-nobles