Bureau of Mediation Services

Financial Audit
For the Five Years Ended June 30, 1996

October 1996

This document can be made available in alternative formats, such as large print, Braille, or audio tape, by calling 296-1235.

Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

96-40

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

STATE OF MINNESOTA
OFFICE OF THE LEGISLATIVE AUDITOR
CENTENNIAL BUILDING, 658 CEDAR STREET • ST. PAUL, MN 55155 • 612/296-4708 • TDD RELAY 612/297-5353
JAMES R. NOBLES, LEGISLATIVE AUDITOR

Representative Ann H. Rest, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. Lance Teachworth, Commissioner
Bureau of Mediation Services

We have audited the Bureau of Mediation Services for the five years ended June 30, 1996, as further explained in Chapter 1. Our audit scope included employee payroll, travel, rent, and grants. The following Summary highlights the audit objectives and conclusions. We discuss these issues more fully in the individual chapters of this report.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we obtain an understanding of management controls relevant to the audit. The standards also require that we design the audit to provide reasonable assurance that the Bureau of Mediation Services complied with provisions of laws, regulations, contracts, and grants that are significant to the audit. Management of the Bureau of Mediation Services is responsible for establishing and maintaining the internal control structure and complying with applicable laws, regulations, contracts, and grants.

In accordance with Minn. Stat. Section 3.975, this report will be referred to the Attorney General. Finding 2 discusses mileage reimbursements paid in excess of the amounts allowed under the bargaining agreements. 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 October 4, 1996.

We 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: July 12, 1996

Report Signed On: September 30, 1996

SUMMARY

State of Minnesota
Office of the Legislative Auditor
Centennial Office Building • St. Paul, MN 55155
612/296-4708

Bureau of Mediation Services

Financial Audit
For the Five Years ended June 30, 1996

Public Release Date: October 4, 1996 No. 96-40

Agency Background

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 operations are financed through General Fund appropriations.

Audited Areas and Conclusions

Our audit objectives were to obtain an understanding of management controls relevant to payroll, rent, travel, and grants. We also designed our audit to provide reasonable assurance that the Bureau of Mediation Services complied with finance-related legal provisions.

We concluded that the bureau adequately documented and approved employee time sheets, used the appropriate pay rates and processed its payroll according to Department of Finance policies and bargaining unit agreements. However, we noted that two individuals had system access to both the payroll and personnel functions.

We concluded that the bureau is following all applicable provisions for the office lease.

We concluded that the bureau's employee travel expenditures and claims for reimbursement were properly authorized and documented. However, we noted that the bureau did not comply with the mileage reimbursement provisions of the bargaining agreements.

We concluded that the bureau appropriately authorized grants-in-aid to labor-management committees in accordance with applicable finance-related legal provisions.

Contact the Financial Audit Division for additional information.
296-1727

Table of Contents

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
Charlie Gill	Auditor-In-Charge
Laura Peterson	Staff Auditor
Trent Usitalo	Student Worker

Exit Conference

The findings and recommendations in this report were discussed with the following staff of the Bureau of Mediation Services on September 17, 1996:

Lance Teachworth	Commissioner
Deanna Matteson	Accounting Officer

Chapter 1. Introduction

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. On December 28, 1994, the governor appointed Lance Teachworth as commissioner of the Bureau of Mediation Services. Prior to that time, Peter Obermeyer, who was appointed on March 4, 1991, served as commissioner.

In 1993, the Office of Dispute Resolution was transferred from the Department of Administration to the bureau. The office assists public agencies in resolving disputes without litigation. Table 1-1 shows the operating expenditures for the audit period.

Table 1-1
Bureau of Mediation Services
Expenditures

	1992	1993	1994	1995	1996
Employee payroll	$1,165,349	$1,135,086	$1,118,444	$1,139,581	$1,329,676
Grants	228,764	221,970	235,990	216,557	157,147
Travel	108,186	98,658	112,225	107,845	96,745
Rent	106,762	106,255	102,622	103,017	115,709
Other	117,397	157,291	226,080	357,953	150,142
Total Expenditures	$1,726,458	$1,719,260	$1,795,361	$1,924,953	$1,849,419

Sources: Statewide Accounting System Manager's Financial Reports as of the close of books for fiscal years 1992, 1993, 1994, and 1995. MAP System Reports as of June 30, 1996.

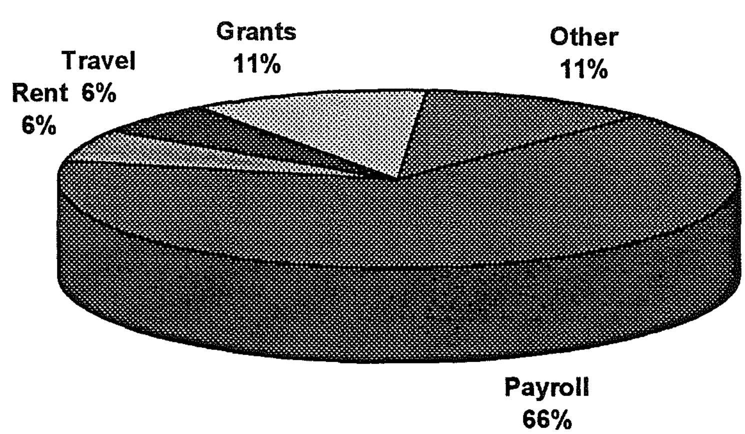
Chapter 2. Administrative Expenditures

Chapter Conclusions

The bureau adequately documented and approved employee time sheets, used the appropriate pay rates, and processed its payroll according to Department of Finance policies and bargaining unit agreements. However, we noted that two individuals had system access to both the payroll and personnel functions. The bureau is following all applicable provisions for its office lease. The bureau's employee travel expenditures and claims for reimbursement were properly authorized and documented. However, we noted that the bureau did not comply with the mileage reimbursement provisions of the bargaining agreements.

The Bureau of Mediation Services' largest administrative expenditure was payroll. In addition to payroll, we reviewed employee travel reimbursements and office rent expenditures. Figure 2-1 shows the bureau's expenditures as percentages.

Figure 2-1
Expenditures as Percentages



Source: Statewide Accounting System Manager's Financial Reports as of the close of books for fiscal years 1992, 1993, 1994, and 1995. MAP System Reports as of June 30, 1996.

Prior to July 1, 1995, the bureau accounted for its expenditures on the statewide accounting system (SWA) and the state payroll personnel system (PPS). Beginning July 1, 1995, the bureau accounted for non-payroll expenditures on the new Minnesota Accounting and Procurement System (MAPS). Payroll continued to be accounted for on PPS until December 1995. At that time, the bureau accounted for its payroll on the new Statewide Employee Management System (SEMA4).

During the audit, we made inquiries of the bureau staff to gain an understanding of the accounting processes for payroll, travel, and rent expenditures. We performed analytical reviews of these disbursements and reviewed any trends. We also tested a sample of expenditures to ensure the bureau had adequate supporting documentation, properly recorded the transactions in the accounting records, paid the correct amount, and complied with applicable rules and regulations.

Payroll

The Bureau of Mediation Services employs over 20 individuals. During the audit period, payroll averaged over $1 million each fiscal year. (See Table 1-1.) The commissioner's assistant is primarily responsible for the human resources (or personnel) functions of payroll, and the accounting officer is primarily responsible for the processing of payroll.

Our audit of payroll focused on the following questions:

- Did the bureau adequately document and approve employee time sheets?
- Did the bureau use the correct pay rates in calculating payroll to employees?
- Did the bureau process payroll in accordance with Department of Finance policies and bargaining unit agreements?

We concluded that the bureau adequately documented and approved employee time sheets, used the appropriate pay rates, and processed its payroll according to Department of Finance policies and bargaining unit agreements. However, we noted system access to the payroll and personnel functions were inadequate as further discussed in Finding 1.

1. Controls over system access to the payroll and personnel functions are inadequate.

Two employees at the bureau have clearance in SEMA4 to process both personnel and payroll transactions. The personnel and payroll functions are separate, incompatible functions. Generally, employees performing payroll functions should not have responsibility to update personnel records. When one individual has authority to perform both functions, the risk of errors and irregularities going undetected, increases.

The bureau is a small office and the number of staff available to help in the accounting of payroll is limited. Indeed, proper separation of duties in a small office is often difficult to attain. However, prior to the implementation of SEMA4, the assistant commissioner or the commissioner reviewed and approved the Payroll Certification Report (a report listing the hourly rates and hours worked). As a result, an additional control was in place to identify any error or irregularities.

Recommendation

- *The bureau should either limit employee access to the appropriate segments of SEMA4 or have another individual review the SEMA4 reports for accuracy.*

Rent

The Department of Administration was responsible for negotiating the lease for the bureau's office space. The present five-year lease agreement with C B Commercial Management will expire on October 31, 1998. Currently, the bureau's annual lease payments are approximately $115,000.

Our audit of rent expenditures focused on the following question:

- Does the bureau follow the provisions of the lease agreement?

We concluded that the bureau is following all applicable provisions for the office lease.

Travel

The bureau on average has over $100,000 in travel expenditures each year. (See Table 1-1.) About half of the travel expenditures are payments made to the Department of Administration's Travel Management Division for use of state vehicles. The bureau's mediators are the predominant users of state vehicles.

Our audit of travel expenditures focused on the following questions:

- Did the bureau properly authorize employee travel expenditures and were claims for reimbursement adequately supported and in accordance with applicable bargaining unit agreements?

We concluded that the bureau's employee travel expenditures and claims for reimbursement were properly authorized and documented. However, we noted that the bureau did not comply with the mileage reimbursement provisions of the bargaining agreements as discussed in Finding 2.

2. The bureau paid mileage reimbursements in excess of the amounts allowed under the bargaining agreements.

Employees at the bureau were reimbursed for actual miles driven rather than according to the provisions in the labor agreements. The bureau's employees are covered by the Commissioner's Plan or the Managerial Plan. Each plan has the same provision related to mileage reimbursement, as stated below:

> When an employee does not report to the permanent work location during the day or makes business calls before or after reporting to the permanent work location, the allowable mileage is: (1) the lesser of the mileage from the employee's residence to the first stop or from his/her permanent work location to the first stop, (2) all mileage between points visited on State business during the day, and (3) the lesser of the mileage from the last stop to the employee's residence or from the last stop to his/her permanent work location. (Commissioner's Plan July 1, 1995 - June 30, 1997, Chapter 15, page 59.)

Bureau of Mediation Services

The bureau did not compare the trip miles reported on the employee expense reports to the official mileage tables or state map to ensure the mileage reimbursements complied with the labor agreements. During our testing, we found that one employee was overpaid $34.32 out of $289.68 for mileage on the employee's November 1995 expense report. We determined that this employee was consistently reimbursed for actual miles driven. During the audit period, this employee was paid $8,085 in mileage reimbursement. However, we did not calculate the actual monthly mileage overpayments to this employee. In addition, we noted a second employee was similarly reimbursed.

We also found that the bureau's travel policies and procedures do not agree with the provisions of the Commissioners or the Managerial Plan. The bureau's policies and procedures related to Use of Personal Vehicle states:

A. Mediators: A mediator traveling directly to and from his/her home to a work location other than the bureau office will be reimbursed for all mileage incurred as a result of such assignment at established mileage and distance rates. When travel is from the bureau office, mileage between the Mediator's residence and the bureau office will not be reimbursed.

B. All Other Staff: A staff member who travels directly from home to a work or professional development activity location other than the bureau office will be reimbursed only for mileage in excess of that employee's normal commute mileage.

Recommendations

- *The Bureau of Mediation Services should update its policies and procedures related to travel reimbursements to ensure compliance with the labor agreements. The bureau should also communicate any changes to its staff.*
- *The bureau should analyze the extent of excess mileage reimbursements and recover overpayments as appropriate.*

Chapter 3. Grants-in-Aid to Labor-Management Committees

Chapter Conclusions

The bureau appropriately authorized grants-in-aid labor-management committees in accordance with applicable finance-related legal provisions.

The bureau provides grants to area labor-management committees.

MS 179.81, Subd. 2, defines the committees:

> Area labor-management committee or committee means a committee formed by and composed of multiple employers and multiple labor organizations within a geographic area or statewide employment sector, for the purpose of improving labor-management relations and enhancing economic development within a given geographic jurisdiction or sector through labor-management cooperation.

State Agency Rules, 5520.0300, Subpart 2, provides that:

> The amount of each grant will be determined by the commissioner after considering the merits and reasonableness of each application, the total funds available in relationship to the total amounts requested, prior awards and experiences with individual applicants, the usual and customary costs of operating a committee, and the overall purposes and goals of the program.

MS Section 179.84 provides the, "General Conditions and Terms of Grants......For each grant awarded the commissioner shall:

> (1) require an approved work plan that establishes measurable goals and objectives for the committee within the committee's area of responsibility and that prohibits the committee from becoming involved in contract disputes, labor negotiations, or grievance procedures; and
>
> (2) annually review the operating performance of each area labor-management committee receiving state money under this program."

A new or existing area labor-management committee may apply for a maximum grant of $75,000 per year. The nonstate money matching requirements are 10 percent in the first year, 20 percent in the second year, and 50 percent in the third year and beyond.

Table 3-1 shows the grant expenditures for the audit period:

Table 3-1
Bureau of Mediation Services
Grant Expenditures

	1992	1993	1994	1995	1996
Construction Industry Research Co.	$ 0	$ 0	$ 0	$ 20,638	$ 7,000
Greater Metropolitan Area Retail Food Liaison Management Council	4,300	4,850	4,000	0	0
Iron Range Labor-Management Association	29,500	33,500	28,000	25,750	19,500
Labor and Management Partnership	0	0	0	6,170	3,522
Labor-Users-Contractors Labor-Management Committee	32,400	32,500	27,250	22,500	18,000
Lake Superior Area Labor-Management Association	39,600	40,000	37,250	37,000	30,000
Metropolitan Hospitals Labor-Management Council	48,420	44,000	39,250	37,500	29,375
Minnesota School Labor Management	2,000	1,000	0	0	0
Southeastern Minnesota Construction Partnership	0	0	16,250	16,000	7,000
St. Cloud Area Labor-Management Council	12,144	5,120	7,490	0	0
Twin City Area Labor-Management Council	60,400	61,000	54,000	51,000	39,000
Twin Ports Construction Liaison Committee	0	0	0	0	1,250
Total	$228,764	$221,970	$213,490	$216,558	$157,147

Note: As of August 31, 1996, there were outstanding encumbrances of $61,353.

Source: Statewide Accounting System Records as of the close of books for fiscal years 1992, 1993, 1994, and 1995. MAP System Reports as of August 31, 1996.

Laws of 1993, Chapter 146, Art. 4, Sec 3(a) appropriated $60,000 for the purposes of total quality management grants under Minnesota Statutes, section 179.02. The grant paid one-half the $500 cost per individual to educate them on total quality management for small business and government employers. A total of $22,500 in tuition awards was disbursed during fiscal year 1994 from the original $60,000 grant, leaving a balance of $37,500 that was cancelled to the state's General Fund.

Our audit of Grants-in-aid to Labor-Management Committees focused on the following question:

- Did the bureau appropriately authorize grants-in-aid to Labor-Management Committees in accordance with applicable finance-related legal provisions?

We interviewed bureau staff to gain an understanding of the accounting processes, performed analytical reviews of grant disbursements and reviewed any trends, and tested a sample of grant expenditures. We also reviewed the appropriate finance-related legal provisions.

We concluded that the bureau appropriately authorized grants-in-aid labor-management committees in accordance with applicable finance-related legal provisions.

BMS

BUREAU OF MEDIATION SERVICES

State of Minnesota

September 25, 1996

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

Dear Mr. Nobles:

This is in response to the draft audit report for audit work at the Bureau of Mediation Services covering July 1, 1991, to June 30, 1996.

I appreciated the opportunity to review the draft report with you and the auditors on September 17th, and hereby offer the following responses to Findings and Recommendations contained in the Report.

> Audit Finding No. 1: "Controls over system access to the payroll and personnel functions are inadequate."
>
> Audit Recommendation: "The Bureau should either limit employee access to the appropriate segments of SEMA4 or have another individual review the SEMA4 reports for accuracy."
>
> BMS Response: Due to the relatively small size of our staff, it is not feasible to separate the assignments. Thus, we have adopted the recommendation to put in place an additional control, i.e., the Commissioner or the Mediator Unit Director will review and sign the payroll register report for each payroll period. This action is already in place, having been implemented as soon as the matter was called to our attention.
>
> Audit Finding No. 2: "The Bureau paid mileage reimbursements in excess of the amounts allowed under the Manager's Plan and Commissioner's Plan."

(612) 649-5421 FAX: (612) 643-3013
1380 Energy Lane • Suite #2 • St. Paul, MN 55108-5253

Audit Recommendations:

a) "The BMS should update its policies and procedures related to travel reimbursements to ensure compliance with the Plans. The Bureau should also communicate any changes to its staff."

b) "The Bureau should analyze the extent of excess mileage reimbursements and recover overpayments as appropriate."

BMS Responses:

a) Recommendation (a) has been implemented. (See enclosed updated Policy and Memo to BMS Staff.)

b) The Bureau currently has two field staff employees who drive their own vehicles rather than a state vehicle. We have conducted a detailed review of the mileage reimbursements for both of these employees for F.Y. 1996. One of the employees has been with the agency a little over a year and drove a state vehicle the first six months of her employment and has been driving her personal vehicle for the past six months. Our review of mileage reimbursements during the last six months shows three instances where the employee should have been reimbursed for mileage driven from the BMS office location rather than her home. The total excess reimbursement for her is $32.97.

With respect to the other employee, our analysis shows a total excess reimbursement of $134.70 for the fiscal year. It is important, however, that the following considerations be kept in mind regarding this matter:

1) All parties have acted in good faith. There is no question that anyone attempted to falsify expense reports in any way, or to commit fraud;

2) Both employees complied with the written policies of the BMS regarding mileage reimbursements;

3) The error was the result of an oversight on the part of the Bureau, and not the fault of the employees affected. As soon as the Bureau became aware that our policy was outdated, we took immediate action to correct the matter and communicated the updated policy to all staff. (See memo of 7-16-96)

We wish to thank you and your staff for the professionalism with which the audit was conducted and the courtesies extended to us in the review process.

Sincerely,

Lance Teachworth

Lance Teachworth
Commissioner

LT:cc

Enclosures

Note to Readers:

The Bureau of Mediation Services' response included their revised policy on travel expenses. Copies of this policy can be obtained by contacting the Office of the Legislative Auditor at 296-1727.