

Department of Human Rights

Financial Audit

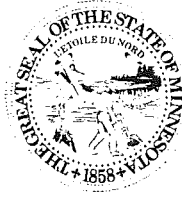
For the Two Fiscal Years Ended June 30, 1997

March 1998

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Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

98-21



STATE OF MINNESOTA
OFFICE OF THE LEGISLATIVE AUDITOR
JAMES R. NOBLES, LEGISLATIVE AUDITOR

Senator Deanna Wiener, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Ms. Dolores Fridge, Commissioner
Department of Human Rights

We have audited the Department of Human Rights for the period July 1, 1995, through June 30, 1997. As explained in Chapter 1, our audit scope included the following areas: federal contract receipts, state employee payroll, professional and technical services, rent, supplies, and equipment expenditures. The following Summary highlights the audit objectives and conclusions. We discuss these areas more fully in the individual chapters of this report.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, as issued by the Comptroller General of the United States. Those standards require that we obtain an understanding of management controls relevant to the audit. The standards require that we design the audit to provide reasonable assurance that the Department of Human Rights complied with provisions of laws, regulations, contracts, and grants that are significant to the audit. The management of the Department of Human Rights is responsible for establishing and maintaining the internal control structure and complying with applicable laws, regulations, contracts, and grants.

This report is intended for the information of the Legislative Audit Commission and the management of the Department of Human Rights. This restriction is not intended to limit the distribution of this report, which was released as a public document on March 27, 1998.

A handwritten signature in black ink, appearing to read "James R. Nobles".

James R. Nobles
Legislative Auditor

A handwritten signature in black ink, appearing to read "Claudia J. Gudvangen".

Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

End of Fieldwork: February 20, 1998

Report Signed On: March 23, 1998

SUMMARY

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Department of Human Rights

Financial Audit For the Two Fiscal Years Ended June 30, 1997

Public Release Date: March 27, 1998

No. 98-21

Department Background

The Department of Human Rights was established in 1967 to enforce and administer the Minnesota Human Rights Act. The department investigates and resolves allegations of unlawful discrimination. In addition, the department reviews affirmative action plans submitted by firms seeking to do business within Minnesota. Dolores Fridge was appointed acting commissioner in October 1996 and confirmed by the Senate in February 1997.

Audit Objectives and Conclusions

Our audit objective was to obtain an understanding of management controls for the period from July 1, 1995, to June 30, 1997, relevant to federal contract revenue, payroll, and administrative expenditures. We also designed our audit to provide reasonable assurance that the department complied with applicable legal provisions.

We concluded that the Department of Human Rights designed internal controls to provide reasonable assurance that federal contract revenue was properly supported, deposited, and recorded in the state's accounting system. In addition, the department collected all federal contract revenue earned pursuant to the U.S. Equal Employment Opportunity Commission contracts.

The Department of Human Rights designed internal controls to provide reasonable assurance that payroll and administrative expenditures were properly authorized, documented, and accurately recorded in the state's accounting system. For the items tested, the department processed expenditures in compliance with finance-related legal provisions. However, the department needs to restrict security access to its payroll and personnel data for some employees.

The department, in its response, acknowledged the importance of the separation of duties and has several controls in place to ensure that the payroll procedures and policies are properly adhered to.

Department of Human Rights

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Audit Participation

The following members of the Office of the Legislative Auditor prepared this report:

Claudia Gudvangen, CPA	Deputy Legislative Auditor
Renee Redmer, LPA	Audit Manager
Rhonda Regnier, CPA	Auditor-in-Charge
Fubara Dapper, CPA	Senior Auditor
Brad Falteysek	Staff Auditor

Exit Conference

We discussed the results of the audit at an exit conference with the following Department of Human Rights staff on March 6, 1998:

Dolores Fridge	Commissioner
Joyce Simon	Director of Operations
Carl Anderson	Fiscal Manager

Department of Human Rights

Chapter 1. Introduction

The Department of Human Rights was established in 1967 to enforce and administer the Minnesota Human Rights Act. The department's primary mission is investigation and resolution of charges of discriminatory practices as set forth in the Human Rights Act. The department responds to citizens who allege violations of their human rights in areas such as employment, housing, credit, public accommodations, public service, and education. The department also provides public education aimed at preventing and eliminating discrimination.

The department's current commissioner, Dolores Fridge, was acting commissioner from October 1996 until confirmed by the Senate in February 1997. David Beaulieu served as commissioner of the department from July 1991 through October 1996.

The Department of Human Rights investigates and resolves charges of discrimination, provides education to prevent discrimination, and administers the contract compliance provisions of the Minnesota Human Rights Act. Under a work-share agreement with the U.S. Equal Employment Opportunity Commission (EEOC), the department investigates jointly filed cases. The EEOC reimburses the department for the cost of investigating certain cases as explained in Chapter 2. Federal funds are deposited in the state's General Fund.

The Department of Human Rights received General Fund appropriations of \$3,446,000 and \$3,563,000, respectively, for fiscal years 1996 and 1997. In addition, the department received funding in fiscal year 1996 of \$134,000 from a Department of Administration office relocation appropriation. Other funds for the department include a fiscal year 1997 lease purchase agreement of \$160,000 for the purchase of office furniture. The department also collected restitutions for resolved discrimination cases and dedicated receipts for a seminar.

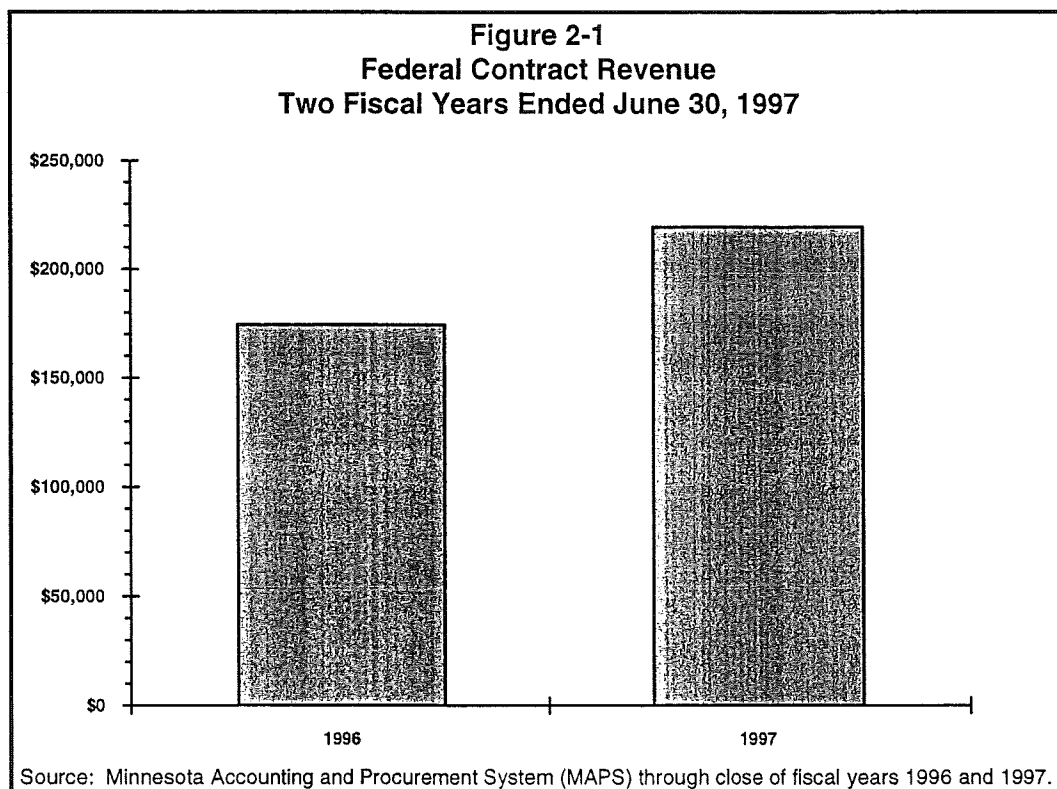
Expenditures for the department mainly included payroll and administrative expenses, including professional and technical services, rent, supplies, and equipment. These expenditures are discussed in Chapter 3.

Chapter 2. Federal Contract Revenue

Chapter Conclusions

The Department of Human Rights designed internal controls to provide reasonable assurance that its federal contract revenue was properly supported, deposited, and recorded in the state's accounting system. In addition, the department collected all federal contract revenue earned pursuant to EEOC contracts.

The Department of Human Rights has a contract with the Equal Employment Opportunity Commission (EEOC) providing a \$500 reimbursement for each human rights case the department investigates. These cases deal with Title VII of the Civil Rights Act of 1964, Age Discrimination in Employment Act of 1967 (ADEA), and Americans with Disabilities Act of 1991 (ADA). The contract establishes a maximum reimbursement amount for each fiscal year. The federal reimbursements are electronically transferred from the EEOC to the state treasury and are deposited into the General Fund. Figure 2-1 shows the funds that were reimbursed during the two fiscal years ending June 30, 1997. The department received a total of \$394,000 in federal contract revenue during this period.



Department of Human Rights

Audit Objectives and Methodology

We focused our audit of federal contract revenue for the period July 1, 1995, through June 30, 1997, on the following objectives:

- Did the department design internal controls over federal contract revenue to provide reasonable assurance that revenue is properly supported, deposited, and recorded in the state's accounting system?
- Did the department receive reimbursement for all cases allowed in the EEOC contract?

To answer these questions, we completed interviews with department personnel and the contract director at EEOC. We tested all EEOC contracts and traced them to supporting vouchers and the state's accounting system records.

Conclusions

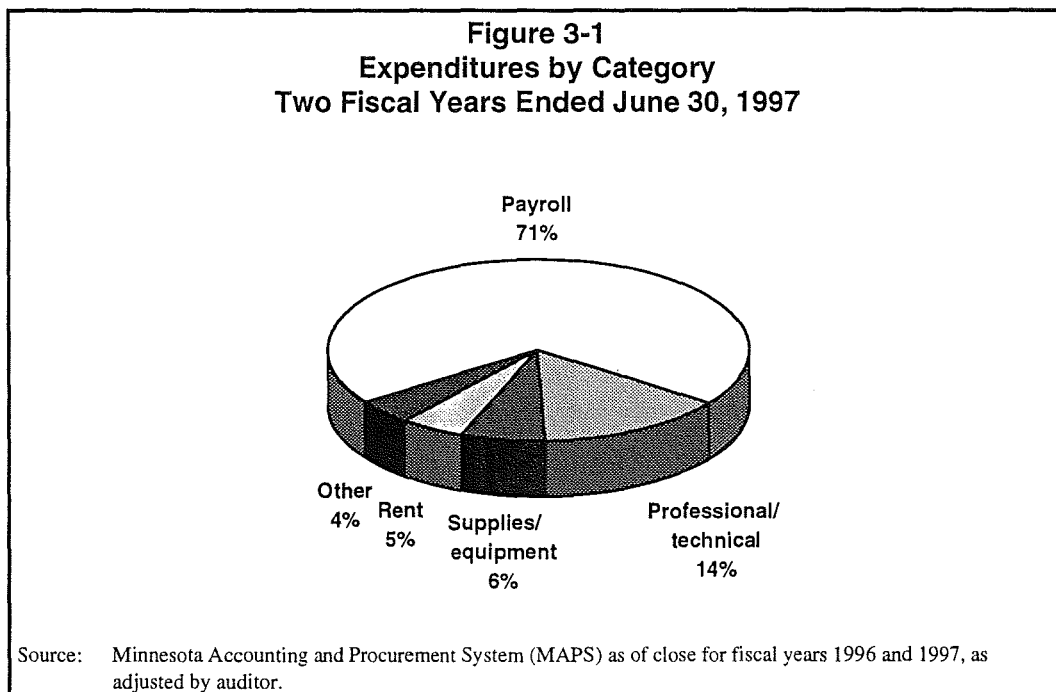
The Department of Human Rights designed internal controls to provide reasonable assurance that federal contract revenue was properly supported, deposited, and recorded in the state's accounting system. In addition, the department collected federal contract revenue in accordance with contract provisions.

Chapter 3. Payroll and Administrative Expenditures

Chapter Conclusions

The Department of Human Rights designed internal controls to provide reasonable assurance that its payroll and administrative expenditures were properly authorized, documented, and accurately recorded in the state's accounting records. For the items tested, the department processed expenditures in accordance with state policies and procedures. However, the department needs to restrict security access to its payroll and personnel data.

The Department of Human Rights expenditures are mainly for payroll and administrative expenses to operate the department. Payroll is the largest expenditure category for the department, accounting for 71 percent of total expenditures in fiscal years 1996 and 1997. The department's other significant expenditure categories are professional and technical services, equipment, supplies, and rent. Figure 3-1 shows the department's expenditure categories for the two fiscal years ended June 30, 1997 and the percentage of each category to total expenditures.



Our review of the department's expenditures for the period July 1, 1995, through June 30, 1997, focused on payroll and administrative expenditures including professional and technical services, rent, and supplies and equipment.

Department of Human Rights

Payroll

The department's personnel and payroll data is processed through the state's personnel/payroll system. The department began using the state's new system, the State Employee Management (SEMA4) system in December 1995. The department's payroll expenditures totaled \$2,473,147 for fiscal year 1996 and \$2,570,128 for fiscal year 1997.

Audit Objectives and Methodology

We focused our audit of payroll expenditures on the following objectives:

- Did the department design internal controls to provide reasonable assurance that payroll and personnel transactions are processed in accordance with bargaining unit agreements and applicable state policies and procedures?
- Are payroll expenditures properly authorized, adequately supported, and accurately recorded in the state's payroll and accounting systems?

To answer these questions, we interviewed department personnel, performed analytical reviews, and tested a sample of supporting employee timesheets and leave slips. We chose our sample transactions using computerized audit software.

Conclusions

The Department of Human Rights designed internal controls to provide reasonable assurance that its payroll and personnel transactions were processed in accordance with state policies and procedures and bargaining unit agreements. However, as discussed in Finding 1, the department needs to restrict security access to the state's payroll and personnel systems.

1. The Department of Human Rights did not adequately restrict system access to payroll and personnel data in the State Employee Management System (SEMA4).

The Department of Human Rights granted inappropriate access to payroll and personnel data. We found three of the four human resource and fiscal employees had access capabilities that were incompatible with other duties they were performing. Each person had full access to update all functions of payroll and personnel applications. The department did restrict access for one fiscal employee to the payroll functions necessary to complete the employee's job responsibilities.

The SEMA4 system was designed to create separate payroll and human resource profiles so that responsibilities could be properly separated. Allowing inappropriate access to data provides a risk that individuals could enter erroneous or fraudulent transactions that may not be detected by the department's control structure.

Department of Human Rights

Recommendation

- *The Department of Human Rights should restrict employee access to its payroll and personnel data to only those functions needed to perform their assigned duties. Allowing employees access to incompatible payroll and personnel functions should be avoided, if at all possible.*

Administrative Expenditures

The Department of Human Rights administrative expenditures include professional/technical services, rent, supplies, equipment, and other expenditures. The department uses professional and technical services to carry out some of its activities. During the audit period, these services include litigation costs with the Attorney General and Administrative Hearings Office, as well as consulting services to set up a new computer system. The department spent approximately two-thirds of its total professional and technical expenditures on contracts with other state agencies.

The department's rent expenditures are mainly for office and storage space. In January 1997, the department moved to a different building in downtown St. Paul. The department's supplies purchases consist of general office and computer supplies. The department's equipment purchases include computer equipment and \$160,000 of new office furniture through a fiscal year 1997 lease purchase agreement. The department is required to make semi-annual payments for five years on the lease purchase agreement. Table 3-1 summarizes the department's administrative expenditures for fiscal years 1996 and 1997.

Table 3-1
Administrative Expenditures
Two Fiscal Years Ended June 30, 1997

<u>Expenditure Type</u>	<u>1996</u>	<u>1997</u>	<u>Total</u>
Professional/Technical Services	\$261,694	\$780,726	\$1,042,420
Rent	160,417	196,026	356,443
Equipment	80,614	181,576	262,190
Supplies	71,794	134,844	206,638
Other	173,409	143,555	316,964

Source: Minnesota Accounting and Procurement System (MAPS) for fiscal years 1996 and 1997, as adjusted by auditor.

Audit Objectives and Methodology

We focused our audit of administrative expenditures on the following objectives:

- Did the department design internal controls to provide reasonable assurance that administrative expenditures were properly authorized, supported, and recorded in the state's accounting system?
- Did the department make expenditures in accordance with applicable contract agreements and finance-related legal provisions?

Department of Human Rights

To answer these questions, we completed interviews with department personnel, completed analytical reviews, and tested samples of expenditures.

Conclusions

The Department of Human Rights designed internal controls to provide reasonable assurance that payroll and administrative expenditures were properly authorized, supported, and recorded in the state's accounting system. In addition, for the items tested, the department made payments within applicable contract agreements and finance-related legal provisions.

Department of Human Rights

Status of Prior Audit Issues As of March 1, 1998

Most Recent Audits

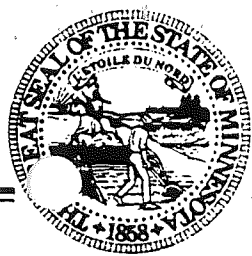
June 1994, Legislative Audit Report 94-36 covered the three fiscal years ending June 30, 1993. The audit scope included the agency's financial activities as follows:

- Federal grant revenue
- Other agency revenue
- Professional services
- Professional, technical, and consultant services
- Travel expenditures

The report cited no audit issues.

State of Minnesota Audit Follow-Up Process

The Department of Finance, on behalf of the Governor, maintains a quarterly process for following up on issues cited in financial audit reports issued by the Legislative Auditor. The process consists of an exchange of written correspondence that documents the status of audit findings. The follow-up process continues until Finance is satisfied that the issues have been resolved. It covers entities headed by gubernatorial appointees, including most state agencies, boards, commissions, and Minnesota state colleges and universities. It is not applied to audits of the University of Minnesota, any quasi-state organizations, such as the Metropolitan agencies or the State Agricultural Society, the state constitutional officers, or the judicial branch.



Minnesota Department of Human Rights

March 17, 1998

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

Dear Mr. Nobles:

Attached is the Department's response to the recommendation in the Legislative Auditor's Report that we adequately restrict access to payroll and personnel data in SEMA4.

If you need anything else, please give me a call.

Sincerely,

A handwritten signature in cursive script, reading "Dolores H. Fridge", is positioned above the printed name.

Dolores H. Fridge
Commissioner

DHF/slb

Attachment

In Response to the Legislative Auditor Report, recommendation under Chapter 3 Payroll and Administrative Expenditures: The department did not adequately restrict access to payroll and personnel data in SEMA4.

Human Resources and Accounting Department response:

The Department acknowledges the importance of the separation of duties and recognizes the corresponding liabilities caused by not implementing checks and balances. However, because of a planned staff reduction in late May, which will reduce the staff from the current level of four to three, the department feels it is imperative to have a backup for processing payroll. Because Sema4 training is required to be able to process payroll, our Human Resource Manager is the most logical person to provide backup. As a small agency, to maximize the department's effectiveness, our staff must be cross trained to perform multiple duties. We also feel that the controls listed below, which are in place, will provide the monitoring tools necessary to ensure payroll procedures and policies are followed.

The department has several controls in place to ensure that the payroll procedures and policies are properly adhered to:

1. No employee's salary increase will be implemented without the proper accompanying documentation.
2. All step increases and annual raises are part of the planning process and the accounting department knows about them before they are to take effect.
3. Employees payroll and expenses are monitored bi-weekly and monthly by the accounting supervisor and payroll personnel.
4. All employees time sheets and expense reports must be signed by their respective supervisor and reviewed by the accounting department before processing. All time sheets and expense reports are checked for accuracy against the payroll register weekly.