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OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

Financial Audit Division Report

Department of Human Rights
Fiscal Years 2002 through 2004



MARCH 24, 2005

05-22

Financial Audit Division

The Office of the Legislative Auditor (OLA) is a professional, nonpartisan office in the legislative branch of Minnesota state government. Its principal responsibility is to audit and evaluate the agencies and programs of state government (the State Auditor audits local governments).

OLA's Financial Audit Division annually audits the state's financial statements and, on a rotating schedule, audits agencies in the executive and judicial branches of state government, three metropolitan agencies, and several "semi-state" organizations. The division also investigates allegations that state resources have been used inappropriately.

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Consistent with OLA's mission, the Financial Audit Division works to:

- Promote Accountability,
- Strengthen Legislative Oversight, and
- Support Good Financial Management.

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OFFICE OF THE LEGISLATIVE AUDITOR
State of Minnesota • James Nobles, Legislative Auditor

Senator Ann H. Rest, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Ms. Velma Korbel, Commissioner
Minnesota Department of Human Rights

We have audited the Minnesota Department of Human Rights for the period July 1, 2001, through June 30, 2004. Our audit scope was limited to payroll, rent, supplies and equipment, travel expenditures, and federal and private grant revenue. The Report Summary highlights our overall audit conclusions. The specific audit objectives and conclusions are contained in the individual chapters of this report.

We selected the Department of Human Rights for audit based on our annual assessment of state agencies and programs. We used various criteria to determine the entities to audit, including the size and type of each agency's financial operations, length of time since the last audit, changes in organizational structure and key personnel, and available audit resources.

We conducted our audit in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we obtain an understanding of the department's internal controls relevant to the audit objectives. We used the guidance contained in *Internal Control-Integrated Framework*, published by the Committee of Sponsoring Organizations of the Treadway Commission, as our criteria to evaluate department controls. The standards also require that we plan the audit to provide reasonable assurance that the department complied with financial-related legal provisions that are significant to the audit. In determining the department's compliance with legal provisions, we considered requirements of laws, regulations, contracts, and grant agreements.

To meet the audit objectives, we gained an understanding of the Department of Human Right's financial policies and procedures. We considered the risk of misstatements in the accounting records and noncompliance with relevant legal provisions. We analyzed accounting data to identify unusual trends or significant changes in financial operations. We examined a sample of evidence supporting the agency's internal controls and compliance with laws, regulations, contracts, and grant provisions.

/s/ James R. Nobles

James R. Nobles
Legislative Auditor

/s/ Claudia J. Gudvangen

Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

End of Fieldwork: January 14, 2005

Report Signed On: March 21, 2005

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
Jeanine Leifeld, CPA, CISA	Audit Manager
Joan Haskin, CPA, CISA	Auditor-in-Charge
Kelly Olson	Auditor

Exit Conference

We discussed the results of the audit with the following staff of the Department of Human Rights at an exit conference on March 11, 2005:

Velma Korbel	Commissioner
James Kirkpatrick	Deputy Commissioner

Report Summary

Overall Conclusion:

- The department's controls over payroll were adequate. However, the department did not comply with certain purchasing and travel requirements.

Key Findings:

- The department did not prepare and sign purchase orders before buying some supplies and equipment. (Finding 1, page 7)
- Some employees' expense reimbursement requests did not include all required documentation, such as original receipts. (Finding 2, page 7)
- The department did not code some disbursement transactions correctly in the state's accounting records. (Finding 3, page 8)

The audit report contained three audit findings relating to internal control and legal compliance. The department did not resolve the finding included in our prior audit report, and we have repeated it in this report.

Audit Scope:

Audit Period:

Fiscal Years 2002 through 2004

Selected Audit Areas:

- Payroll Expenditures
- Rent Expenditures
- Supplies and Equipment
- Travel Expenditures
- Federal and Private Grant Revenues

Agency Background:

The Department of Human Rights was established by the Legislature in 1967 to enforce and administer the Minnesota Human Rights Act. The department's primary mission is to investigate and resolve charges of discrimination as set forth in *Minnesota Statutes* 363A. The department received a General Fund appropriation of \$3.5 million for fiscal year 2004.

Department of Human Rights

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Department of Human Rights

Chapter 1. Introduction

The Department of Human Rights was established by the Legislature in 1967 to enforce and administer the Minnesota Human Rights Act. The department's primary mission is to investigate and resolve charges of discrimination as set forth in *Minnesota Statutes* 363A. The department responds to individuals who allege violations of their human rights in areas such as education, housing, jobs, and services. The law grants the department the authority to receive and investigate charges filed by individuals who feel they have been victims of illegal discrimination. The current commissioner, Velma Korbel, was appointed in January 2003 and replaced the previous commissioner, Janeen Rosas.

The department primarily receives funding from General Fund appropriations. Table 1-1 summarizes the department's financial activities for fiscal years 2002 – 2004.

Table 1-1
Department of Human Rights
Sources and Uses of Funds
Fiscal Years 2002 - 2004

	<u>2002</u>	<u>2003</u>	<u>2004</u>
Sources:			
State Appropriations	\$4,032,000	\$4,148,000	\$3,520,000
Less: Canceled or Reverted ⁽⁴⁾	0	(638,323)	(59,000)
Federal Receipts ⁽¹⁾	518,025	180,000	636,741
Other Receipts ⁽²⁾	47,675	31,778	267,558
Transfers In ⁽³⁾	0	12,899	0
Balance Forward In	113,161	578,518	115,024
Total Sources	<u>\$4,710,861</u>	<u>\$4,312,872</u>	<u>\$4,480,323</u>
Expenditures and Other Uses:			
Payroll	\$3,248,000	\$3,319,642	\$2,949,500
Rent	278,854	289,407	244,111
Travel	16,872	5,683	3,402
Supplies	32,526	33,074	27,372
Equipment	26,981	35,252	36,877
Other Administrative Expenditures	190,585	155,290	256,615
Transfers Out ⁽¹⁾	338,525	359,500	636,741
Balance Forward Out	578,518	115,024	325,705
Total Uses	<u>\$4,710,861</u>	<u>\$4,312,872</u>	<u>\$4,480,323</u>

Note 1: The department earns revenue from the federal Equal Employment Opportunity Commission (EEOC) for investigating certain discrimination cases. The department initially deposits these funds into the department's Federal Fund account and then transfers them into a state General Fund account at the Department of Finance where the money is canceled.

Note 2: Other receipts for fiscal year 2004 include \$166,000 in private grant funds from the Otto Bremer Foundation.

Note 3: Transfers in represents the agency's share of a small agency supplemental appropriation for information technology needs pursuant to the Laws of Minnesota, 1999, Chapter 250, Article 1, Sec. 12.

Note 4: Cancellations in fiscal year 2003 include a budget reduction transfer to the General Fund of \$285,323.

Source: Minnesota Accounting and Procurement System (MAPS).

Department of Human Rights

Our audit included a review of selected financial activities of the Department of Human Rights, focusing on payroll, rent, supplies and equipment, travel expenditures, and federal and private grant revenues. The following report chapters discuss our review of internal controls and compliance with significant laws and regulations for those areas.

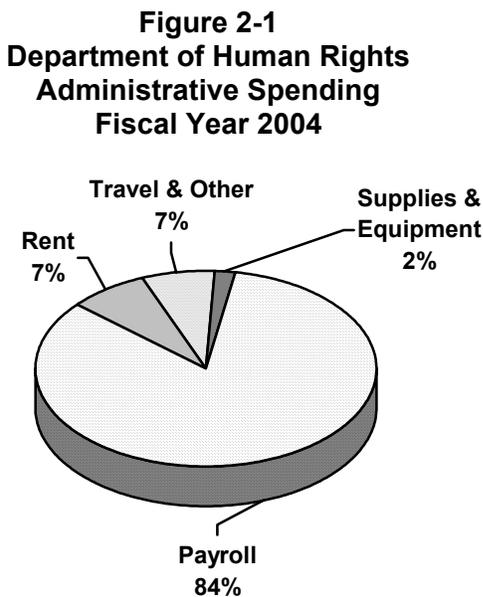
Chapter 2. Payroll and Other Selected Administrative Expenditures

Chapter Conclusions

The Department of Human Rights internal controls provided reasonable assurance that payroll expenditures were accurately reported in the accounting records and in compliance with applicable legal provisions and management’s authorization. For the items tested, the Department of Human Rights complied with the significant finance-related legal provisions concerning payroll.

The department did not comply with certain procurement policies and incorrectly coded some supplies, equipment, and travel expenditures on the accounting system. The department also did not properly document some employee expense reimbursement claims. The department reimbursed one employee in excess of the maximum amount in the bargaining agreement.

Payroll is the department’s largest administrative expenditure category, totaling approximately \$2.9 million in fiscal year 2004 and representing about 84 percent of total annual expenditures. As shown in Figure 2-1, the remaining administrative expenditures included items such as rent, supplies, equipment, and travel.



Source: Minnesota Accounting and Procurement System (MAPS) payments coded to budget fiscal year 2004.

Department of Human Rights

Audit Objectives

Our audit of payroll and selected administrative expenditures focused on the following questions:

- Did the department's internal controls provide reasonable assurance that payroll, rent, supplies and equipment, and travel expenditures were accurately reported in the accounting records and in compliance with applicable legal provisions and management's authorization?
- For the items tested, did the department comply, in all material respects, with the significant finance-related legal provisions concerning payroll and selected administrative expenditures?

Background

Payroll

The Department of Human Rights has approximately 46 employees. These employees belong to various bargaining units and compensation plans, including the American Federation of State, County, and Municipal Employees, Minnesota Association of Professional Employees, Middle Management Association, Commissioner's Plan, and Managerial Plan. The department uses the state's computerized system, the State Employee Management System (SEMA4), to process its personnel and payroll transactions.

Rent

The Department of Human Rights leases office space in downtown St. Paul. Rental of office space averaged about \$270,000 per year during the audit period.

Supplies and Equipment

The department spent about \$93,000 on supplies and \$99,000 on equipment purchases during the three-year audit period. The department uses the state's procurement process for its purchases. The department purchased supplies and equipment by using state contracts and through its local purchasing authority.

Travel

The department spent approximately \$26,000 on travel expenses during the three-year audit period. The majority of the department's travel and employee expense reimbursements related to staff trips for investigations in the metropolitan area and in greater-Minnesota locations, as well as for training and other conferences. The department has specific policies and procedures for employee business expense reimbursement. These policies cover reimbursement for mileage, meals and lodging, parking, telephone, and special expenses.

Department of Human Rights

Our audit of payroll, rent, supplies and equipment, and travel expenditures identified three issues.

Findings and Recommendations

1. The Department of Human Rights did not comply with certain purchasing policies.

In several cases, the department did not have properly prepared purchase orders before buying goods. For 3 of 20 items we tested, the department prepared the purchase order after it received the invoice. In another two cases, the purchase orders did not have authorizing signatures. It is important that the department prepare purchase orders to confirm what is being purchased. The Department of Finance also requires purchase orders or other documentation as a basis for encumbering funds in the state's accounting system before goods and services are acquired.

Recommendation

- *The department should routinely prepare purchase orders prior to ordering goods or services. All purchase orders should be properly authorized.*

2. PRIOR FINDING NOT RESOLVED: Some travel expense reimbursement claims did not comply with applicable policies and regulations.

The department did not ensure that travel expense reimbursement claims contained adequate documentation, or that they were paid in accordance with state travel policies. We found several problems with the twelve employee expense claims we tested, including the following:

- Three employee expense reports did not document travel departure and arrival times and destinations. Employees are not eligible for breakfast unless they leave home before 6:00 a.m. or for dinner unless they return home after 7:00 p.m. According to state travel policies, expense reports must clearly detail departure and arrival times and locations in order to verify eligibility for meal reimbursement.
- Four employee expense reports did not adequately document local miles driven. State and department policies require that all stops be listed, including building, address, or other location, for reimbursement of local mileage driven. The department's policy also requires odometer readings. Without adequate documentation, the department cannot ensure that employees receive appropriate mileage reimbursements.
- In two instances, employees did not provide detailed receipts to support reimbursement requests. There was no documentation for one employee's lodging cost of \$174. Another employee submitted a credit card statement for reimbursement for a \$45 computer manual. The credit card statement did not detail what the employee purchased. The department travel reimbursement policy requires original receipts for these types of reimbursement.

Department of Human Rights

- There was inadequate documentation for reimbursement of \$71 to an employee for investigative telephone calls. The employee made a series of work calls from home. The employee submitted copies of the telephone bills, but did not document which cases the calls pertained to. Without adequate documentation, there is an increased risk that the department could reimburse the employee for personal calls.
- The department paid for mileage for an out-of-state trip without adequate documentation. The department reimbursed an employee for mileage without determining whether it was cost effective for the employee to use a personal car for the trip. If it was not cost effective, the department should have reimbursed the employee at a lower mileage rate. The department also did not limit the amount of the reimbursement to the total a commercial airline carrier would have charged for the same trip, as required by department policy. Finally, the supervisor never approved the employee's expense claim.
- Finally, the department reimbursed one employee more for meals than the maximum amount allowed under the bargaining agreement. The employee received meal reimbursement of \$42 per day for two days. The maximum reimbursement was \$31 per day. The employee also received reimbursement of \$30 for breakfast and dinner. The maximum amount for these meals was \$22.

Recommendation

- *The department should ensure that all employee travel expense reports are adequately documented and paid in accordance with applicable collective bargaining agreements and state compensation plans.*

3. The Department of Human Rights incorrectly recorded some expenditures on the state's accounting system.

The department used incorrect record dates for 23 out of 28 sample items tested. The department entered the date that the accounting unit received the invoice as the record date, rather than the date it received the goods or services. In some instances, the department used the date the invoice was received because it did not document the date goods or services arrived. The Department of Finance uses the record date to determine the state's outstanding liabilities at year-end for financial reporting purposes.

In 4 of 20 sample items tested, the department allowed the accounting system to default to incorrect object of expenditure codes for certain transactions. For example, the department recorded computer software as supplies instead of software purchases. It also recorded a computer device as medical supplies instead of computer equipment. It is important that the department properly code its expenditures to provide an accurate summary of purchases.

Recommendation

- *The department should use the correct record dates and object codes when entering payments into the accounting system.*

Chapter 3. Grant Revenue

Chapter Conclusions

The Department of Human Rights properly recorded payments from the Equal Employment Opportunity Commission on the state's accounting system. As required, the department transferred the federal receipts to the state's General Fund. For the items tested, there was sufficient documentation to support expenditures from the Otto Bremer grant, and the expenditures were allowable under the terms of the grant agreement.

Federal Revenue

The department has a contract with the federal Equal Employment Opportunity Commission (EEOC) and receives reimbursement for complaint investigations and processing. The EEOC reimburses the department \$500 for each case dealing with civil rights, age, and disability discrimination that the department closes. The federal revenue is nondedicated and cancels to the state's General Fund. The department received \$1,334,766 in federal revenue during the audit period.

Otto Bremer Foundation Revenue

In December 2003, the department accepted a three-year \$188,500 grant from the Otto Bremer Foundation to fund an "Educate to Eliminate" initiative to eliminate discrimination. The department uses these funds for community forums for businesses, employers, and landlords; human rights curriculum for secondary students and adult learners; and public service announcements. During fiscal year 2004, the department received \$166,000 through the grant. Grant expenditures for the period March 2004 through December 2004 totaled \$34,258.

Audit Objectives

Our audit of federal and private grant revenues focused on the following questions:

- Did the department properly request and record federal reimbursements from the EEOC on the state's accounting system?
- Did the department transfer federal revenue to the state's General Fund, as required?
- Was there sufficient documentation on file for the Otto Bremer grant expenditures, and were the expenditures allowable under the terms of the grant agreement?

There were no findings in the grant revenue area.

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**Status of Prior Audit Issues
As of January 14, 2005**

Most Recent Audit

Legislative Audit Report 02-27, issued in May 2002, covered the four fiscal years ended June 30, 2001. The audit scope included financial management and administrative expenditures for payroll, rent, travel, supplies, equipment, and state agency-provided services. The report included one written finding related to employee travel expense reimbursements. We repeated that issue in the current report as Finding 2.

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 and quasi-state organizations, such as the metropolitan agencies or the State Agricultural Society, the state constitutional officers, or the judicial branch.

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Minnesota Department of Human Rights

March 18, 2005

James R. Nobles
Legislative Auditor
Room 140 Centennial Building
658 Cedar Street
St. Paul, MN 55155

Dear Mr. Nobles:

This letter is in response to the draft audit report for the audit conducted for the period July 1, 2001, through June 30, 2004.

I and my staff appreciate the opportunity to review the draft report with your staff on March 11, 2005 and are offering the following responses to the Findings and Recommendations contained in the Report.

Audit Finding 1: *In several cases the Department did not have properly prepared purchase orders before buying goods.*

Recommendation: The Department should routinely prepare purchase orders prior to ordering goods or services. All purchases orders should be properly authorized.

Response: The Department will reinforce its policy that all purchases must be requested and purchase orders prepared and authorized prior to ordering goods. The Department will begin immediately to review purchase orders for proper authorizing signature.

Audit Finding 2: *Some travel expense reimbursement claims did not comply with applicable policies and regulations.*

Recommendation: The Department should ensure that all employee travel expense reports are adequately documented and paid in accordance with applicable collective bargaining agreements and state compensation plans.

Response: The Department's policy has been revised to comply with current travel management requirements. Supervisors will be trained on the procedures by March 31, 2005. Accounting staff are responsible for confirming that travel expense reports are properly documented and paid pursuant to CBAs and state compensation plans.

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James R. Nobles
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Audit Finding 3: *The Department of Human Rights incorrectly recorded some expenditures on the state's accounting system.*

Recommendation: The Department should use the correct record dates and object codes when entering payments into the accounting system.

Response: As mentioned at the exit conference on March 11, 2005, it is unfortunate that the Department received a finding in this area, as it is the state's accounting system that automatically defaults to the incorrect codes, however, the Department concurs with the finding. The Department has trained accounting staff responsible for the proper recording of dates to prevent continuation of the current practice. The Department has established procedures which will emphasize over-riding the system default to key the correct object code over commodity code. The procedures also include the submittal of documentation to the state's Department of Finance to notify them when the system does not allow the most accurate object code to be used.

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,

/s/ Velma Korbel

Velma Korbel
Commissioner

VK/dmrz