

Retroactive Pay Adjustments for Law Enforcement Employees at the Departments of Commerce, Corrections, Natural Resources, and Public Safety

Performance Audit

July 2024

Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

Financial Audit Division

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July 10, 2024

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This report presents the results of our performance audit of law enforcement employees' retroactive pay adjustments for Fiscal Year 2022. The objectives of this audit were to determine if state agencies had adequate internal controls over selected financial activities and complied with significant finance-related legal requirements.

Minnesota Management and Budget and the departments of Corrections, Natural Resources, and Public Safety agreed with all findings, as stated in their responses at the end of the report. The Department of Commerce did not have findings and, therefore, did not provide a response.

This audit was conducted by Heather Rodriguez (Audit Director); auditors Ria Bawek, Sheena Kurth, and Lisa Makinen; former auditor Zach Kempen, CPA; and former intern John Paul Rossini.

We received the full cooperation of all five agencies while performing this audit.

Sincerely,



Judy Randall
Legislative Auditor



Lori Leysen, CPA
Deputy Legislative Auditor



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Report Summary

In June 2022, Minnesota Management and Budget implemented provisions from the Minnesota Law Enforcement Association (MLEA) labor agreement that increased compensation rates. Some state agencies with employees represented by MLEA did not have the expertise, knowledge, and resources to accurately calculate the resulting retroactive payments. As a result, many MLEA members received inaccurate compensation that took more than six months to recover, which negatively impacted the confidence members have in the retroactive pay adjustment process.

Conclusions

Our audit found that state agencies had not resolved the inaccurate retroactive payments for 30 percent of employees we tested.

This report highlights some significant areas of concern around the retroactive pay adjustment process, including limitations in the state's payroll system, poor communication among state agencies, and the inability of agencies to process accurate and timely payments to employees.

Our overall conclusions for the audit are as follows:

- Minnesota Management and Budget did not have adequate internal controls over the parameters it established for the payroll system's retroactive pay adjustment calculations.
- The Department of Commerce complied with the legal requirements related to the retroactive pay adjustments we tested and had adequate internal controls to ensure compliance with those legal requirements.
- The departments of Corrections, Natural Resources, and Public Safety did not comply with the legal requirements related to the retroactive pay adjustments we tested. They also did not have adequate internal controls to ensure compliance with those legal requirements.

The list of findings below and the full report provide more information about these concerns.

Findings and Recommendations

Finding 1. Minnesota Management and Budget processed retroactive pay adjustments with incorrect date parameters for Minnesota Law Enforcement Association members. (p. 11)

Recommendations

- Minnesota Management and Budget should use the correct date parameters when processing retroactive pay adjustments.

- Minnesota Management and Budget should strengthen internal controls by ensuring an experienced employee reviews the process parameters in the state's payroll system before it initiates retroactive pay adjustments.
-

Finding 2. The Department of Corrections issued incorrect retroactive payments to two Minnesota Law Enforcement Association members. (p. 14)

Recommendations

- The Department of Corrections should resolve inaccurate retroactive payment errors for each employee identified.
 - The Department of Corrections should strengthen internal controls to ensure the accuracy of retroactive payments.
-

Finding 3. The Department of Natural Resources approved system-calculated retroactive payments it knew were incorrect for 161 Minnesota Law Enforcement Association members before it conducted the required review of the calculations.

The Department of Natural Resources also calculated and issued incorrect retroactive payments for three additional Minnesota Law Enforcement Association members. (p. 15)

Recommendations

- The Department of Natural Resources should only approve system-calculated retroactive payments if it has reviewed the calculations for accuracy.
 - The Department of Natural Resources should strengthen internal controls to ensure the accuracy of retroactive payments.
 - The Department of Natural Resources should obtain guidance from Minnesota Management and Budget on the mass retroactive pay adjustment process, when needed.
-

Finding 4. The Department of Natural Resources did not resolve incorrect retroactive payments to 20 Minnesota Law Enforcement Association members. (p. 17)

Recommendations

- The Department of Natural Resources should resolve inaccurate retroactive payment errors for each employee identified.
 - The Department of Natural Resources should strengthen internal controls to ensure the accuracy of retroactive payments.
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Finding 5. The Department of Public Safety approved system-calculated retroactive payments it knew were incorrect for 73 Minnesota Law Enforcement Association members before it conducted the required review of the calculations.

The Department of Public Safety issued estimated retroactive payments to 513 Minnesota Law Enforcement Association members before verifying the amounts.

The Department of Public Safety calculated and issued incorrect retroactive payments for 24 additional Minnesota Law Enforcement Association members. (p. 18)

Recommendations

- The Department of Public Safety should only approve system-calculated retroactive payments if it has reviewed the calculations for accuracy.
 - The Department of Public Safety should not process estimated retroactive payments.
 - The Department of Public Safety should strengthen internal controls to ensure the accuracy of retroactive payments.
 - The Department of Public Safety should obtain guidance from Minnesota Management and Budget on the mass retroactive pay adjustment process, when needed.
-

Finding 6. The Department of Public Safety did not resolve incorrect retroactive payments to 187 Minnesota Law Enforcement Association members. (p. 19)

Recommendations

- The Department of Public Safety should resolve inaccurate retroactive payment errors for each employee identified.
 - The Department of Public Safety should strengthen internal controls to ensure the accuracy of retroactive payments.
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Background

Retroactive Pay Adjustment Overview

Minnesota Management and Budget (MMB) manages payroll and human resource transactions for the executive branch by providing policies, procedures, systems, and support statewide. In addition, MMB processes some statewide payroll and human resource transactions in the state's payroll system, such as mass retroactive pay adjustments. When labor agreements are settled, MMB processes the necessary compensation rate changes and initiates the payroll system's calculation of retroactive payments when the effective date is in a prior pay period.

State agencies are responsible for reviewing, modifying, and approving the payroll system's calculation of retroactive pay adjustments before MMB issues payments to employees.

Audit Scope, Objectives, Methodology, and Criteria

We conducted this audit to determine whether MMB and the departments of Commerce, Corrections, Natural Resources, and Public Safety had adequate internal controls and complied with significant finance-related legal requirements. The audit scope included retroactive pay adjustments resulting from the settlement of the 2021-2023 Minnesota Law Enforcement Association (MLEA) labor agreement. The payments related to the period of July 1, 2021, through June 7, 2022.

We designed our work to address the following questions:

- Did state agencies have adequate internal controls to ensure they issued accurate retroactive pay adjustments, in compliance with applicable legal provisions?
- Did state agencies accurately issue retroactive pay adjustments, in compliance with applicable legal provisions?

To gain an understanding of related internal controls and compliance requirements, we interviewed staff and reviewed documentation at MMB and the departments of Commerce, Corrections, Natural Resources, and Public Safety.

MMB issued the initial retroactive payments for all departments on the same date—July 1, 2022—which we could identify in the state's payroll system. However, we could not identify subsequent payments and recoveries issued by the departments to remedy errors because they were not issued on the same date. As a result, we had to review the support for all retroactive activity paid after July 1, 2022, to determine if it was related to the initial retroactive payments and, therefore, should be included in our population.

We tested the entire population of retroactive payments for MLEA members at the departments of Commerce, Corrections, and Natural Resources, and a random sample at the Department of Public Safety. Accordingly, we could not determine the extent of retroactive pay adjustments for the employees we did not test.

Exhibit 1 shows the initial payments, as well as subsequent payments and recoveries, made to the employees included in our testing. It also includes an example of the multiple payments and recoveries some MLEA members experienced to resolve the inaccurate retroactive payments they initially received. We discuss the extent of inaccurate retroactive payments throughout this report.

Exhibit 1

Retroactive Pay Adjustment Activity Tested, for the Period of July 1, 2021, through June 7, 2022

Department	Number of Employees Tested	Initial Payments	Net Subsequent Payments	Net Subsequent Recoveries	Net Total
Commerce	14	\$ 32,529	\$ –	\$ –	\$ 32,529
Corrections	10	18,776	–	–	18,776
Natural Resources	164	1,060,897	1,414	(689,353)	372,958
Public Safety	499	1,194,040	210,880	(216,760)	1,188,160
Total	687	\$2,306,242	\$212,294	\$(906,113)	\$1,612,423

Notes: We determined net subsequent payments and recoveries by adding together all of the retroactive pay adjustments for each employee. If overall, the state owed additional money to the employee, we recorded the net adjustments in the “Net Subsequent Payments” column. If overall, the employee had to return money to the state, we recorded the net adjustments in the “Net Subsequent Recoveries” column. We provide an example in the table below.

Example of Retroactive Pay Adjustment Activity for a Minnesota Law Enforcement Association Member

2022 Check Dates	Amount Paid or Recovered	
July 1	\$2,001	This amount is reported in the “Initial Payments” column above.
September 23	(67)	
October 7	(67)	Subsequent payments and recoveries net to (\$416), so we reported this activity in the “Net Subsequent Recoveries” column above.
October 21	(67)	
November 4	(67)	
November 18	(567)	
December 2	433	
December 16	(67)	
December 30	53	
Total	\$1,585	

Notes: Minnesota Law Enforcement Association members that received overpayments entered into payment plans that dictated the amount the state deducted from their paychecks each pay period. The Department of Natural Resources gave its employees the option to pay back overpayments it initially identified through June 30, 2023, and the Department of Public Safety gave its employees through December 30, 2022.

Source: Office of the Legislative Auditor, based on data in the state’s payroll system.

We conducted this performance audit in accordance with generally accepted government auditing standards.¹ Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. When sampling was used, we used a sampling method that complies with generally accepted government auditing standards and that supports our findings and conclusions. That method does not, however, allow us to project the results we obtained to the populations from which the samples were selected.

We assessed internal controls against the most recent edition of the internal control standards, published by the U.S. Government Accountability Office.² To identify legal compliance criteria for the activity we reviewed, we examined state laws, state labor agreements, and policies and procedures established by MMB.

¹ Comptroller General of the United States, Government Accountability Office, *Government Auditing Standards, 2018 Revision* (Washington, DC, Technical Update April 2021).

² Comptroller General of the United States, Government Accountability Office, *Standards for Internal Control in the Federal Government* (Washington, DC, September 2014). In September 2014, the State of Minnesota adopted these standards as its internal control framework for the executive branch.



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Minnesota Management and Budget's Mass Retroactive Pay Adjustment Process

The Minnesota Law Enforcement Association (MLEA) is an employee bargaining unit that represents law enforcement employees at the departments of Commerce, Corrections, Natural Resources, and Public Safety. Minnesota Management and Budget (MMB) and MLEA completed negotiations and agreed to the terms of the 2021-2023 MLEA labor agreement on May 2, 2022. The labor agreement's terms included a 2.5 percent increase to compensation rates in the first year, retroactive to July 1, 2021. It also included a range reassignment, which moved all MLEA job classes to higher salary ranges effective May 25, 2022.³ This range reassignment increased most compensation rates by an additional 1.7 to 4.3 percent.

On June 10, 2022, MMB processed the necessary compensation rate increases and initiated the payroll system's calculation of retroactive payments to MLEA members, which covered payroll activity from July 1, 2021, through June 7, 2022. While the system calculated the retroactive payments, it flagged those employees who had certain activity in their human resources or payroll data that would likely cause the payroll system's calculation to be inaccurate.⁴ It also flagged employees whose system-calculated payments exceeded the maximum threshold established by MMB.⁵ MMB requires state agencies to review the calculations of flagged employees for accuracy. The state's payroll system automatically approves all other retroactive payments, although MMB encourages state agencies to review a sample of these calculations to ensure they are reasonable.⁶

The state's payroll system flagged the majority of the retroactive payments for state agency review because MLEA members also received a lump-sum payment on November 19, 2021. The lump-sum payment was in response to legislatively mandated

³ Minnesota Management and Budget, *Agreement between the Minnesota Law Enforcement Association and the State of Minnesota, Dates: July 1, 2021 through June 30, 2023*, art. 28, sec. 1C, and apps. D-2 and E-2. We verified that MMB accurately implemented the range reassignment, effective May 25, 2022, by moving all MLEA members to the correct compensation rates.

⁴ The payroll system flags retroactive payments for employees that temporarily worked in a different position, had a lump-sum payment, or received a type of compensation that has payout limitations.

⁵ MMB calculates a maximum threshold for each mass retroactive pay adjustment by multiplying the highest compensation rate by the percentage increase and then multiplying the result by the total number of hours in the retroactive period. The system flags the retroactive payments that exceed the maximum threshold because there is an increased risk that the payment is inaccurate.

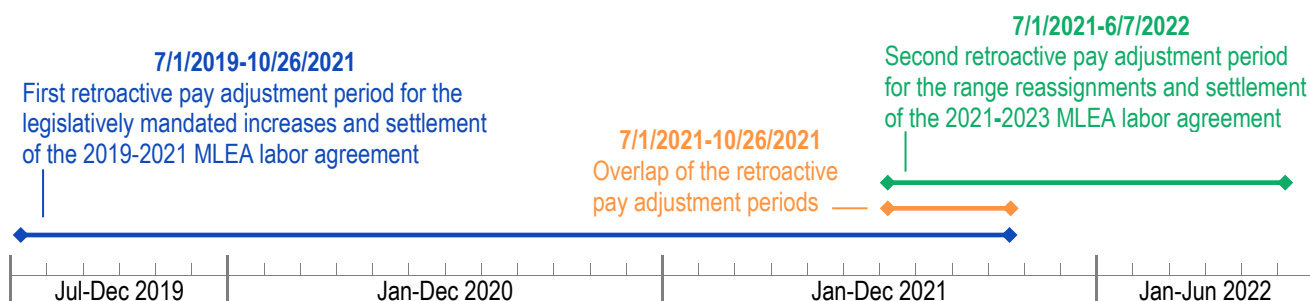
⁶ Minnesota Management and Budget, *Mass Retroactive Pay Adjustments – Reference*, https://help.hcm.systems.state.mn.us/html/doc/eng/webhelp2020/index.htm#t=Mass_Retroactive_Pay_Adjustments.htm, accessed January 26, 2023.

increases and the settlement of the 2019-2021 labor agreement, which covered payroll activity from July 1, 2019, through October 26, 2021.⁷

As a result of limitations in the state's payroll system, the system calculated the retroactive payments for the 2021-2023 labor agreement using the compensation rates originally paid to employees during normal payroll processing covering July 1, 2021, through June 7, 2022, without factoring in the previous lump-sum payment they already received.⁸ As depicted in Exhibit 2, this caused the system-calculated payments to be overstated for the overlapping period of July 1, 2021, through October 26, 2021.

Exhibit 2

Minnesota Law Enforcement Association Mass Retroactive Pay Adjustments, July 2019 through June 2022



Source: Office of the Legislative Auditor.

On June 10, 2022, MMB sent a memo to state agency payroll, human resources, and accounting staff detailing the timeline for processing the retroactive pay adjustments for MLEA members. MMB gave agencies five days, between June 13 and June 17, 2022, to complete the review of flagged employees. The five-day review period allowed the system to calculate proposed payments, state agencies to review the system calculations, and MMB to process employee payments within the same pay period.

By completing all of these activities within the five-day timeline, the state would avoid the need to calculate and process additional retroactive payments for subsequent pay periods. Additionally, this allowed MMB to implement a 2.5 percent compensation rate increase from the 2021-2023 MLEA labor agreement, which was effective July 1, 2022

⁷ *Laws of Minnesota* 2021, First Special Session, chapter 4, art. 9, sec. 1, as amended by *Laws of Minnesota* 2021, First Special Session, chapter 11, art. 8, sec. 3; *Laws of Minnesota* 2021, First Special Session, chapter 5, art. 3, sec. 1, as amended by *Laws of Minnesota* 2021, First Special Session, chapter 11, art. 8, sec. 8; *Laws of Minnesota* 2021, First Special Session, chapter 11, art. 8, sec. 13; and chapter 6, art. 4, sec. 1; and Minnesota Management and Budget, *Agreement between the Minnesota Law Enforcement Association and the State of Minnesota, Dates: July 1, 2019 through June 30, 2021*, art. 28, secs. 1C and 1D.

⁸ For example, an employee received an original compensation rate of \$42.68 from July 1, 2021, through October 26, 2021. The state paid the employee a lump-sum payment to retroactively increase their compensation rate during that period to \$45.65, on November 19, 2021 (to implement the legislatively mandated increases and the 2019-2021 labor agreement increases). When MMB settled the 2021-2023 labor agreement, the employee was eligible for a lump-sum payment to retroactively increase their compensation rate (during that same period) to \$46.80. When the payroll system calculated the associated retroactive payment, it used \$46.80 minus \$42.68 instead of \$46.80 minus \$45.65.

(the following pay period). The memo did not highlight the fact that the system-calculated payments had not factored in the previous lump-sum payments or that more employees than typical had been flagged for agency review.

MMB showed us how it establishes the retroactive pay adjustment parameters in the state's payroll system, processes the compensation rate increases, and initiates the system-calculation of the retroactive payments. We evaluated the safeguards MMB had in place to ensure the processes were complete and accurate, as required by internal control standards.⁹

FINDING 1

Minnesota Management and Budget processed retroactive pay adjustments with incorrect date parameters for Minnesota Law Enforcement Association members.

When MMB established the date parameters for the retroactive pay adjustment in the state's payroll system, it incorrectly duplicated the pay period ending June 7, 2022, which overstated the system-calculated retroactive payments. The employee responsible for reviewing the data for accuracy prior to MMB processing the adjustments was unavailable, so a less-experienced employee performed the task. MMB told us that it identified the error on June 13, 2022, but could not fix it without also backing out all of the related salary changes.

Instead of backing out the error, MMB flagged for agency review the retroactive pay adjustments that were previously unflagged. MMB sent a memo to state agencies on June 14, 2022, notifying them that they would need to remove the duplicated pay period from their calculations to prevent overpayments. State agencies had three days left in the five-day review period to make this adjustment. According to MMB, it contacted affected state agencies by phone and e-mail to verify that they had received the memo.

RECOMMENDATIONS

- **Minnesota Management and Budget should use the correct date parameters when processing retroactive pay adjustments.**
 - **Minnesota Management and Budget should strengthen internal controls by ensuring an experienced employee reviews the process parameters in the state's payroll system before it initiates retroactive pay adjustments.**
-

This combination of circumstances led to fewer than typical retroactive payments being system-approved and an increase in manual calculations for the departments of Commerce, Corrections, Natural Resources, and Public Safety.

⁹ Comptroller General of the United States, Government Accountability Office, *Standards for Internal Control in the Federal Government* (Washington, DC, September 2014), 45-48.



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Departmental Review of Mass Retroactive Payments

Retroactive pay adjustments must comply with the increases allowed by labor agreements. As previously discussed, the 2021-2023 Minnesota Law Enforcement Association (MLEA) agreement gave members two compensation rate increases that were effective in prior pay periods.¹⁰

Minnesota Management and Budget (MMB) has issued guidance for state agencies to ensure compliance with the terms of labor agreements when calculating, processing, and reviewing mass retroactive pay adjustments. This guidance requires that state agencies recalculate retroactive payments for all flagged employees and suggests that they also review a sample of (nonflagged) system-approved retroactive payments.¹¹ In addition, state agencies should implement internal controls, such as an independent review of these calculations, to ensure the accuracy of those payments.¹²

Retroactive pay adjustments of this magnitude, which require complex and lengthy manual calculations, are inherently risky and error-prone. When errors occur and state agencies discover overpayments, MMB's payroll policy and state law requires that state agencies collect overpayments after obtaining the employee's consent or following an established notification process.¹³

The four agencies with MLEA members had different experiences implementing the retroactive pay adjustments. The departments of Commerce and Corrections, which had relatively small numbers of affected employees, were able to follow MMB's guidance and their typical processes to implement the adjustments. On the other hand, the departments of Natural Resources and Public Safety, which had large numbers of affected employees, struggled to follow MMB's guidance and their typical processes. The limited numbers of payroll staff those departments had, and the fact that the retroactive pay adjustments occurred during the state's normal biweekly payroll processing week, contributed to the challenges.

¹⁰ Minnesota Management and Budget, *Agreement between the Minnesota Law Enforcement Association and the State of Minnesota, Dates: July 1, 2021 through June 30, 2023*, art. 28, sec. 1C, and apps. D-2 and E-2.

¹¹ Minnesota Management and Budget, *Mass Retroactive Pay Adjustments – Reference*, https://help.hcm.systems.state.mn.us/html/doc/eng/webhelp2020/index.htm#t=Mass_Retroactive_Pay_Adjustments.htm, accessed January 26, 2023.

¹² Comptroller General of the United States, Government Accountability Office, *Standards for Internal Control in the Federal Government* (Washington, DC, September 2014), 45.

¹³ Minnesota Management and Budget, Statewide Operating Policy and Procedure PAY0033, *Correction of Overpayments*, issued March 2017; and *Minnesota Statutes* 2023, 16D.16. State law requires that agencies send a certified letter to employees that do not provide consent for the state to recover overpayments from their paychecks. The letter informs the employee that the state intends to recover the overpayment from future payments. Employees can request a contested case hearing within 30 days. If they do not, then the state can automatically deduct the overpayment from payments the state owes to the employee, subject to the limitations in law.

Department of Commerce

The payroll system flagged for review the retroactive payments it calculated for all 14 MLEA members employed by the Department of Commerce.

An accounting officer performed preliminary calculations and determined that errors existed in the system-calculated retroactive payments. The accounting officer then recalculated the retroactive payments for each employee on individualized spreadsheets, using information from the reports and the state's payroll system. Management at the department reviewed the calculations for accuracy, and payroll staff entered the corrections they identified into the state's payroll system within the five-day review period.

We recalculated the retroactive payments for all 14 MLEA members at the department and determined they were accurate.

Department of Corrections

The payroll system flagged for review the retroactive payments it calculated for all ten MLEA members employed by the Department of Corrections.

An accounting technician reviewed all system-calculated retroactive payments, eliminated the duplicated pay period, and documented the final payment for each employee on the retroactive pay adjustment reports. According to the department, the accounting officer verified the accuracy of the adjusted calculation; however, they did not retain evidence of the review. The accounting technician entered corrected amounts into the state's payroll system within the five-day review period.

FINDING 2

The Department of Corrections issued incorrect retroactive payments to two Minnesota Law Enforcement Association members.

We recalculated the retroactive payment for all ten MLEA members and determined that the department underpaid two employees by a total of \$258. The first underpayment occurred because the department excluded one pay period from the payment. The second underpayment was due to a calculation error.

For each error, the department either did not document calculations in enough detail for secondary reviewers to sufficiently evaluate the accuracy of the retroactive payments; the secondary review was not sufficient to identify and correct the errors; or the department did not review payroll reports in enough detail to identify missing retroactive activity.¹⁴

¹⁴ MMB requires that state agencies review the Payroll Register and Payroll Posting Audit Trail reports each pay period. These reports include retroactive payments processed for each employee. Minnesota Management and Budget, Statewide Operating Policy and Procedure PAY0028, *Agency Verification of Payroll and Human Resources Transactions*, issued August 2011.

RECOMMENDATIONS

- **The Department of Corrections should resolve inaccurate retroactive payment errors for each employee identified.**
 - **The Department of Corrections should strengthen internal controls to ensure the accuracy of retroactive payments.**
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Department of Natural Resources

The payroll system flagged for review the retroactive payments it calculated for all 164 MLEA members employed by the Department of Natural Resources.

Upon its initial review, the department did not identify the extent of the errors in the system-calculated retroactive payments. The department knew MMB had duplicated one pay period in its calculation, but it had not considered that the prior lump-sum payments related to the settlement of the 2019-2021 MLEA labor agreement and the legislatively mandated increases would create errors in the system-calculated amounts. Regardless, human resources told us that, with the number of flagged employees and limited staff, it could not manually recalculate the payments for all flagged employees within the five-day review period.

FINDING 3

The Department of Natural Resources approved system-calculated retroactive payments it knew were incorrect for 161 Minnesota Law Enforcement Association members before it conducted the required review of the calculations.

The Department of Natural Resources also calculated and issued incorrect retroactive payments for three additional Minnesota Law Enforcement Association members.

Human resources staff at the department were not aware that they could leave flagged employee transactions unapproved in the state's payroll system if they needed additional time to review and recalculate the payments. While MMB's guidance states that state agencies *must* complete the review of flagged employees by the Friday after MMB initiates the retroactive pay adjustment process, this only applies if state agencies want flagged employee payments to be loaded into the state's payroll system for automatic processing.¹⁵ Alternatively, state agencies needing additional time can manually process retroactive payments for the flagged employees once they recalculate and verify final payment amounts.

¹⁵ Minnesota Management and Budget, *Mass Retroactive Pay Adjustments – Reference*, https://help.hcm.systems.state.mn.us/htmldoc/eng/webhelp2020/index.htm#t=Mass_Retroactive_Pay_Adjustments.htm, accessed January 26, 2023.

As a result of the department's approach, the department issued incorrect retroactive payments for all MLEA members it employed. We discuss the extent of the inaccurate payments below.

RECOMMENDATIONS

- **The Department of Natural Resources should only approve system-calculated retroactive payments if it has reviewed the calculations for accuracy.**
 - **The Department of Natural Resources should strengthen internal controls to ensure the accuracy of retroactive payments.**
 - **The Department of Natural Resources should obtain guidance from Minnesota Management and Budget on the mass retroactive pay adjustment process, when needed.**
-

Managers from the department's Enforcement Division notified human resources in late June 2022 that the department may have significantly overpaid retroactive adjustments to MLEA members. Human resources did not conduct any follow-up in response to the notification at that time.

In mid-July 2022, Enforcement Division managers again reached out to human resources and provided additional information regarding MLEA overpayments; specifically, they stated that the Department of Public Safety had identified that MLEA overpayments extended beyond the pay period duplicated in MMB's calculations. As a result, the department's human resources staff and two Enforcement Division accounting staff began recalculating the retroactive payments the week of July 18, 2022. They reviewed each check stub; entered the data into individualized spreadsheets; and obtained compensation rate information, prior retroactive payments, and prior recoveries from the state's payroll system.

According to the department, the transaction supervisor verified the accuracy of a sample of calculations completed by human resources, and human resources reviewed a sample of calculations completed by the accounting staff; however, they did not retain evidence of the review.

The department notified MLEA members of the additional overpayments on September 12, 2022, and provided each employee with a detailed spreadsheet of their retroactive pay calculation. The department held a virtual meeting with affected employees on September 30, 2022, to review the calculations and present repayment options.

The department processed \$689,353 in employee repayments—ranging from \$40 to \$8,896—for 155 employees; the average repayment was \$4,447. The department also processed \$1,414 in additional payments ranging from \$52 to \$188 for nine employees; the average payment was \$157. The collection of repayments for many MLEA members continued through June 30, 2023.

We recalculated the retroactive payments for all 164 MLEA members at the department and determined that the corrections the department made resolved 144 of the 164 inaccurate retroactive payments.

FINDING 4

The Department of Natural Resources did not resolve incorrect retroactive payments to 20 Minnesota Law Enforcement Association members.

At the time of our testing, the department had not resolved the inaccurate retroactive payments for 20 employees. It overpaid retroactive payments to 17 employees by a total of \$1,795 and underpaid 3 employees by a total of \$133. The inaccurate payments occurred because the department stopped some payroll recoveries before it collected the entire overpayment it had correctly identified, and it processed a payroll recovery as a payment. Additionally, the department's calculation spreadsheets contained incorrect overtime and compensation rates, as well as formula, data entry, and transposition errors.

For each error, the department either did not perform a secondary review of the calculation; the secondary review was not sufficient to identify and correct the error; or the department did not review payroll reports in enough detail to identify missing or incorrect retroactive activity.

RECOMMENDATIONS

- **The Department of Natural Resources should resolve inaccurate retroactive payment errors for each employee identified.**
 - **The Department of Natural Resources should strengthen internal controls to ensure the accuracy of retroactive payments.**
-

Department of Public Safety

The payroll system flagged for review the retroactive payments it calculated for 617 MLEA members employed by the Department of Public Safety. The department also received retroactive payment requests from 16 separated employees.¹⁶

Payroll staff at the department realized that the number and amount of flagged system-calculated retroactive payments were significantly higher than normal. However, there was only one employee who was handling retroactive payments at the department, and they could not manually recalculate the payments for all 617 employees within the five-day review period as well as calculate the retroactive payments for the 16 separated employees.

¹⁶ MMB's guidance states that "employees who separated from state service during the adjustment period are eligible for retroactive pay if they request it in writing." MMB does not include separated employees in its mass retroactive pay adjustments; state agencies are responsible for calculating and entering these payments into the state's payroll system. Minnesota Management and Budget, *Mass Retroactive Pay Adjustments – Reference*, https://help.hcm.systems.state.mn.us/html/doc/eng/webhelp2020/index.htm#t=Mass_Retroactive_Pay_Adjustments.htm, accessed January 26, 2023.

FINDING 5

The Department of Public Safety approved system-calculated retroactive payments it knew were incorrect for 73 Minnesota Law Enforcement Association members before it conducted the required review of the calculations.

The Department of Public Safety issued estimated retroactive payments to 513 Minnesota Law Enforcement Association members before verifying the amounts.

The Department of Public Safety calculated and issued incorrect retroactive payments for 24 additional Minnesota Law Enforcement Association members.

The payroll employee at the department told us that they did not know how to handle the volume of retroactive payments in the condensed timeline, and they could not consult with their supervisor because the supervisor was on leave. The payroll employee made the decision to issue estimated payments, in amounts similar to prior retroactive payments, in order to issue timely payments to those employees while minimizing the impact of potential overpayments. During the process, the payroll employee did not enter estimated or department-calculated payments for some employees and, instead, approved the system-calculated payments.

As a result of the department's approach, the department issued retroactive payments it knew were incorrect for 586 of 633 MLEA members it employed. In addition, the department incorrectly calculated and issued retroactive payments for 24 MLEA members we tested.¹⁷ We discuss the extent of the inaccurate payments below.

RECOMMENDATIONS

- **The Department of Public Safety should only approve system-calculated retroactive payments if it has reviewed the calculations for accuracy.**
 - **The Department of Public Safety should not process estimated retroactive payments.**
 - **The Department of Public Safety should strengthen internal controls to ensure the accuracy of retroactive payments.**
 - **The Department of Public Safety should obtain guidance from Minnesota Management and Budget on the mass retroactive pay adjustment process, when needed.**
-

¹⁷ There are 23 employees that are not included in Finding 5. Of those, 16 employees received accurate payments; the remaining 7 employees did not receive system-calculated or estimated retroactive payments and were not included in our sample testing. We cannot conclude on the accuracy of those payments.

The department sent out several communications to affected employees. On June 29 and 30, 2022, the department notified the employees that their July 1, 2022, payments would likely be incorrect. Throughout July 2022, the department sent additional notifications on the expected timeline to complete calculations and process additional payments or recoveries. Finally, in late August 2022, the department provided a memo detailing the retroactive pay adjustment process, how payments were calculated, and the complicating factors that led to payment errors. The department also gave employees the option to request the details of their retroactive payment calculations.

To perform the retroactive payment calculations, payroll staff downloaded the system-calculated retroactive payments in portable document format (PDF) from the state's payroll system. They added handwritten notes on each employee file indicating revised pay rates, prior retroactive payments, and position changes that would affect the calculation. Payroll staff gave timekeepers the employee files, and the timekeepers completed the calculations.¹⁸ According to the department, the payroll administrator spot-checked a few lines from each batch of completed calculations returned by the timekeepers, to identify any obvious issues prior to entering the payments in the state's payroll system.

The department processed \$216,760 in employee repayments—ranging from \$9 to \$5,791—for 115 employees; the average repayment was \$1,885. It also processed \$210,880 in additional payments, ranging from less than \$1 to \$7,845, for 354 employees; the average payment was \$596. The collection of repayments for many MLEA members continued through December 30, 2022.

We recalculated the retroactive payments for 499 of 633 randomly selected employees, and we determined that the corrections the department made resolved 296 of 483 inaccurate retroactive payments.

FINDING 6

The Department of Public Safety did not resolve incorrect retroactive payments to 187 Minnesota Law Enforcement Association members.

At the time of our testing, the department had not resolved the inaccurate retroactive payments for 187 employees. It overpaid retroactive pay rate adjustments to 133 employees by a total of \$28,911 and underpaid 54 employees by a total of \$19,791.

The inaccurate payments occurred for multiple reasons, including the department (1) included payroll activity prior to the effective date of the retroactive pay adjustments, (2) excluded payroll adjustments, (3) used the wrong compensation rates, and (4) calculated straight-time activity at time and one-half.¹⁹ In addition, the department's calculations included numerous math errors that resulted from staff hand-calculating retroactive payments, rather than using spreadsheets. Further, we identified instances

¹⁸ Timekeepers are responsible for verifying that a division or unit within the Department of Public Safety has documented and approved timesheets in accordance with MMB's policies and procedures. They also assist with the verification of compensation rate adjustments that the department processes.

¹⁹ Straight-time means an employee's regular hourly compensation rate. Time and one-half means an employee's regular hourly compensation rate times 1.5.

where the calculations did not match the payments to the employees. The department also stopped some payroll recoveries before it collected the entire overpayment it had correctly identified.

For each error, the department either did not perform a secondary review of the calculation; the secondary review was not sufficient to identify and correct the error; or the department did not review payroll reports in enough detail to identify missing or inaccurate retroactive activity.

RECOMMENDATIONS

- **The Department of Public Safety should resolve inaccurate retroactive payment errors for each employee identified.**
 - **The Department of Public Safety should strengthen internal controls to ensure the accuracy of retroactive payments.**
-

Internal control management at the department started an internal review of retroactive payments before our audit began. They took this measure because of the risk involved in the retroactive pay adjustment process. We did not conduct an extensive review of the results of the internal review; however, our initial review indicated that the internal review did not identify all calculation errors the department made during its retroactive payment process.



July 3, 2024

Judy Randall, Legislative Auditor
Office of the Legislative Auditor
140 Centennial Office Building
658 Cedar Street
Saint Paul, MN 55155

Dear Auditor Randall:

Thank you for the opportunity to respond to the audit report examining the retroactive pay adjustments for law enforcement employees that occurred in 2022. Minnesota Management and Budget (MMB) staff and I value the important role the Office of the Legislative Auditor (OLA) serves to improve government accountability and enhance program effectiveness. We also appreciated the respectful and cooperative relationship between our two agencies while the OLA conducted this audit.

Below you will find my response to the OLA's audit finding and recommendations for MMB. I agree with the OLA's finding and can report that MMB implemented new procedures in 2022 that I believe comply with the OLA's recommendations. I also believe it is important to understand the unusual circumstances contributing to the extraordinary complexity of these particular retroactive pay adjustments. This additional narrative is provided after my response to the audit finding.

Response to the OLA's Finding and Recommendations

The OLA has reported the following audit finding and recommendations related to MMB's use of incorrect date parameters in retroactive pay adjustment process for the 2021-2023 Minnesota Law Enforcement Association (MLEA) labor agreement:

OLA Finding 1

Minnesota Management and Budget processed retroactive pay adjustments with incorrect date parameters for Minnesota Law Enforcement Association members.

OLA Recommendations pertaining to Finding 1

- *Minnesota Management and Budget should use the correct date parameters when processing retroactive pay adjustments.*
- *Minnesota Management and Budget should strengthen internal controls by ensuring an experienced employee reviews the process parameters in the state's payroll system before it initiates retroactive pay adjustments.*

I agree with the OLA's finding and support the OLA's recommendations. MMB's use of incorrect date parameters, which is described in more detail in the section below, made an already difficult process even harder for state agencies tasked with manually reviewing, calculating, and approving flagged employee records in a short timeframe. Shortly after this error occurred, MMB strengthened internal controls by requiring a secondary review, conducted by an experienced employee in MMB's Statewide Payroll Services Section, of the parameters used for retroactive wage adjustments before the adjustments are calculated by SEMA4, the state's human resources and payroll system. I believe MMB is already compliant with the OLA's recommendations and the audit finding has been resolved. The MMB employee responsible for monitoring this audit finding is Mary Muellner, Statewide Payroll Services Director.

Additional Context on 2022 MLEA Retroactive Pay Adjustments

A variety of unique and extraordinary factors made the retroactive payment process for the 2021-2023 MLEA labor agreement very challenging for state agencies to implement.

- **Unprecedented complexity of multiple wage increases for MLEA-represented employees.** In fiscal year 2022, the state implemented two MLEA labor agreements (the 2019-2021 and 2021-2023 agreements), as well as lump sum payments enacted by the Legislature. This unprecedented confluence of wage adjustments in the same year exceeded the technical capabilities of the SEMA4 system. The system was unable to accurately calculate the retroactive payments in the 2021-2023 MLEA labor agreement, and it flagged nearly all (97 percent) of MLEA-represented employee records for manual review, recalculation, and approval by the affected state agencies. This rate far exceeded the rate of flagged records for manual review during previous labor agreement implementations.
- **Biweekly payroll cycle requires limited five-day review period for flagged employee records.** State employees are paid using a biweekly payroll cycle, with the first week used for entries and approvals, and the second week used for final processing and payment. If work is not completed in a single payroll cycle, the process has to start over to take into account the most recent pay period and the additional hours worked. State agencies would need to restart their manual review, calculation, and approval of flagged employee records. This five-day timeframe, while very short, is a practical necessity for the processing of all retroactive pay adjustments in the state's labor agreements.
- **MMB error in the date parameters used for preliminary calculations.** Adding to the complications, MMB made an error in the preliminary calculation of the retroactive payments. Due to a coding error, a single pay period's retroactive payments were calculated twice. MMB employees identified this error on day two of the five-day window and relayed it to the affected state agencies. MMB also flagged the remaining three percent of MLEA-covered employee records that were previously unflagged. This resulted in an additional 22 employee records needing manual review, calculation, and approval by the affected state agencies. The amounts of overpayments calculated by SEMA4 because of this error were a small component of the overall overpayments calculated and flagged in the system. However, it compressed the timeline for state agency review, caused more employee records to be flagged for manual calculations by state agencies, and added additional complexity to an already difficult process.

The series of events contributing to these overpayments were unprecedented. Shortly after these overpayments occurred in 2022, MMB made changes to better assist state agencies during the retroactive payment adjustment process. We have also increased proactive meetings and communications to prepare state agencies for implementation and to discuss potential problems or complications. I am proud of the hard work of employees in MMB and other state agencies, which has ensured subsequent retroactive wage adjustments have been processed timely and accurately.

Once again, thank you for the opportunity to respond to the OLA's report.

Sincerely,

A handwritten signature in black ink that reads "Erin M. Campbell". The script is cursive and fluid, with the first letters of each word being capitalized and prominent.

Erin Campbell
Commissioner

Equal Opportunity Employer



OLA



July 3rd, 2024

Judy Randall
Office of the Legislative Auditor
Room 140, Centennial Building
658 Cedar Street
Saint Paul, Minnesota 55155-1603

Dear Legislative Auditor Randall:

The Department of Corrections (DOC) appreciates the opportunity to provide a written response to the findings and recommendations of the performance audit of law enforcement employees' retroactive pay adjustments for Fiscal Year 2022. Following are DOC's responses to your finding and resulting recommendations.

Finding: The Department of Corrections issued incorrect retroactive payments to two Minnesota Law Enforcement Association members.

Response: We reviewed your finding that the Department underpaid two Minnesota Law Enforcement Association (MLEA) members by \$258.00 and we concur in whole.

Recommendation: The Department of Corrections should resolve inaccurate retroactive payment errors for each employee identified.

Response: The erroneous retroactive payments were corrected shortly after we were contacted by the OLA's auditors in August 2023. Additionally, the Department's office of financial management continues to review its administration of staff payroll management to ensure that staff are paid accurately.

Recommendation: The Department of Corrections should strengthen internal controls to ensure the accuracy of retroactive payments.

Response: DOC is committed to strengthening internal controls, not only in payroll processing, but across the agency. This past fall, the agency created the Office of Inspector General (OIG) that oversees compliance and internal controls, and the agency has also reestablished its internal audit function after several years due to resource constraints.

Again, thank you for the opportunity to respond and we look forward to implementing the recommendations provided in the report as we strive for continuous improvement.

Sincerely,

A handwritten signature in black ink, appearing to read 'Paul Schnell', with a long horizontal flourish extending to the right.

Paul Schnell
Commissioner



OLA

July 3, 2024

Judy Randall, Legislative Auditor
Office of the Legislative Auditor
Centennial Office Building
658 Cedar St. Room 140
St. Paul, MN 55115

Dear Legislative Auditor Randall:

Thank you for the opportunity to review and comment on the Office of the Legislative Auditor's (OLA's) *Retroactive Pay Adjustments for Law Enforcement Employees at the Departments of Commerce, Corrections, Natural Resources, and Public Safety* report. The Minnesota Department of Natural Resources (DNR) appreciates your office's thorough analysis of this complex situation and the demands on the state's payroll system and staff when executing such retroactive adjustments. We value the OLA's recommendations for improving the DNR's process for implementing any mass retroactive pay adjustments in the future.

We fully understand the significance of these retroactive pay adjustments to our law enforcement employees and the importance of employee confidence in our ability to deliver their collectively bargained wages and benefits. Please know that DNR has been working since we first became aware of the issues with our execution of these retroactive pay adjustments to understand the scope of the matter, initiate steps to correct the inaccurate payments, and identify and implement steps to avoid any recurrence in the future. Thus far, this includes correcting the inaccurate payments with 146 of the 164 affected employees and adding steps to our internal validation process to ensure the accuracy of retroactive payment amounts. As part of our continuing work, we are committed to responding to your office's recommendations, as outlined below.

The DNR would also like to express our appreciation for the opportunity to provide this response to the OLA report. Our letter responds to the findings and recommendations that pertain specifically to the DNR.

Audit Finding #3

The Department of Natural Resources approved system-calculated retroactive payments it knew were incorrect for 161 Minnesota Law Enforcement Association members before it conducted the required review of the calculations.

The Department of Natural Resources also calculated and issued incorrect retroactive payments for three additional Minnesota Law Enforcement Association members.

Audit Recommendation: *The Department of Natural Resources should only approve system-calculated retroactive payments if it has reviewed the calculations for accuracy.*

Audit Recommendation: *The Department of Natural Resources should strengthen internal controls to ensure the accuracy of retroactive payments.*

Audit Recommendation: *The Department of Natural Resources should obtain guidance from Minnesota Management and Budget on the mass retroactive pay adjustment process, when needed.*

DNR Response: The DNR concurs that the agency approved system-calculated retroactive payments that were incorrect for 161 Minnesota Law Enforcement Association (MLEA) members before it conducted the required review of the calculations and that the agency calculated and issued incorrect retroactive payments for three additional MLEA members.

The DNR will take the following Corrective Actions:

3.1 Review and improve internal process for reviewing and ensuring the accuracy of retroactive payments. DNR's Human Resources office will examine its internal processes to ensure that adequate measures are in place for reviewing and ensuring the accuracy of system-calculated retroactive payments prior to approving them. Our review of internal controls and identification and implementation of improvements will be completed no later than December 31, 2024.

3.2 Reinforce training of current staff. DNR's Human Resources office will review the status of training received by payroll staff who handle system-calculated retroactive payments to ensure they are current with all available training and understand what to do in the event of unusual circumstances or severe time constraints. A review of training status will be completed by August 31, 2024. Any additional training identified through the review will be completed by December 31, 2024.

3.3 Work with Minnesota Management and Budget (MMB). DNR's Human Resources office will meet with MMB regarding the mass retroactive pay adjustment process to confirm the approach we will use in the future to address system-flagged retroactive pay adjustments. Our Human Resources office will meet with MMB by September 30, 2024.

Audit Finding #4

The Department of Natural Resources did not resolve incorrect retroactive payments to 20 Minnesota Law Enforcement Association members.

Audit Recommendation: *The Department of Natural Resources should resolve inaccurate retroactive payment errors for each employee identified.*

Audit Recommendation: *The Department of Natural Resources should strengthen internal controls to ensure the accuracy of retroactive payments.*

DNR Response: The DNR concurs that it had not resolved 20 incorrect retroactive payments to MLEA members at the time of the OLA's field audit.

The DNR will take the following Corrective Actions:

4.1 Resolve inaccurate payment errors. By October 31, 2024, the DNR will resolve the 18 repayment instances, totaling \$1,761, that remain outstanding as of the date of this letter.

4.2 Review and improve internal process for reviewing and ensuring the accuracy of retroactive payments. DNR's Human Resources office will examine its internal processes to ensure that adequate measures are in place for reviewing and ensuring the accuracy of system-calculated retroactive payments prior to approving them. Our review of internal controls and identification and implementation of improvements will be completed no later than December 31, 2024.

4.3 Interagency Collaboration to Address Complex Retroactive Pay Adjustments. The DNR will continue collaboration with MMB and other agencies as appropriate to identify limitations of the current enterprise payroll system when addressing complex retroactive pay adjustments, including the accuracy of the system-generated calculations; the reliance on manual calculations; and the time required for agencies to review, adjust, and approve system-generated calculations.

Once again, we appreciate the opportunity to respond to your recommendations and the opportunity to work with your office and staff throughout this evaluation.

Sincerely,



Sarah Strommen
Commissioner

Cc: Heather Rodriguez, Audit Director, OLA
Lori Leysen, Deputy Legislative Auditor, OLA
Legislative.Auditor@state.mn.us
Barb Naramore, Deputy Commissioner, DNR
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July 3, 2024

Judy Randall Legislative Auditor
658 Cedar Street, Suite 140
St. Paul, MN 55155

Dear Auditor Randall,

Thank you for the opportunity to review and respond to the findings and recommendations included in the Minnesota Law Enforcement Association (MLEA) Retroactive Payments Internal Controls and Compliance audit conducted by your office. The OLA report highlights issues with MLEA retroactive payments calculations and retroactive pay adjustments not being accurately processed. The Department of Public Safety (DPS) has already taken measures to address findings listed within this report. Moving forward, DPS will continue to strengthen the internal controls to ensure accuracy of retroactive payments and other payroll processes that are in alignment with the audit's findings and recommendations.

Finding Number 5

The Department of Public Safety approved system-calculated retroactive payments it knew were incorrect for 73 Minnesota Law Enforcement Association members before it conducted the required review of the calculations.

The Department of Public Safety issued estimated retroactive payments to 513 Minnesota Law Enforcement Association members before verifying the amounts.

The Department of Public Safety calculated and issued incorrect retroactive payments for 24 additional Minnesota Law Enforcement Association members.

DPS Response

DPS concurs with this finding. DPS will strengthen internal controls through the following corrective actions:

- DPS Fiscal & Administrative Services (FAS) will be hiring a Payroll Supervisor and an additional agency-wide payroll position to better support division payroll staff.
- FAS and the DPS Human Resources (HR) will coordinate more closely on employee compensation rates and retroactive payments.
- HR will create an internal operating procedure and train HR staff on the proper process of updating employee job records for compensation rates and include comments when making corrections or adjustments to compensation rates in the Sema4 system.

Finding Number 6

The Department of Public Safety did not resolve incorrect retroactive payments to 187 Minnesota Law Enforcement Association Members.

DPS Response

DPS concurs with this finding. DPS will resolve any inaccurate retroactive payment errors for each employee identified. DPS will strengthen internal controls through utilization of electronic worksheets to perform calculations instead of manual calculations from portable document format (pdf), verify compensation rates and previous payroll adjustments to ensure accurate compensation rates are used for calculations, perform secondary review of calculations to verify accuracy of retroactive payment calculations, and review payroll reports to identify missing or inaccurate retroactive activity. DPS conducted an internal, secondary audit of retroactive payment calculations. Based on the OLA's review and audit determinations of the original retro calculations and comparing the OLA findings to DPS' secondary review, DPS will be contracting with an external auditor to ensure that all retroactive payments get calculated and implemented correctly.

We appreciate the review conducted by the OLA on this audit. DPS remains committed to working with the OLA to safeguard public funds and meet the needs and expectations of our employees. As such, DPS has already taken corrective measures to address OLA findings prior to the release of this full report and we will continue to implement improvements that are in alignment with the discussed findings and recommendations.

Sincerely,

A handwritten signature in cursive script, appearing to read "Bob Jacobson".

Bob Jacobson
Commissioner

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