



OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

Audit Report

Council on Asian-Pacific Minnesotans
Three Fiscal Years Ended June 30, 1999



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.

The division has a staff of approximately fifty auditors, most of whom are CPAs. The division conducts audits in accordance with standards established by the American Institute of Certified Public Accountants and the Comptroller General of the United States.

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

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

Through its Program Evaluation Division, OLA conducts several evaluations each year and one best practices review.

OLA is under the direction of the Legislative Auditor, who is appointed for a six-year term by the Legislative Audit Commission (LAC). The LAC is a bipartisan commission of Representatives and Senators. It annually selects topics for the Program Evaluation Division, but is generally not involved in scheduling financial audits.

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OFFICE OF THE LEGISLATIVE AUDITOR

State of Minnesota • James Nobles, Legislative Auditor

Report Summary

Financial Audit

Council on Asian-Pacific Minnesotans Three Fiscal Years Ended June 30, 1999

Key Findings and Recommendations:

- The council did not properly administer certain grants. The council should work with grantors and the Departments of Administration and Finance to resolve remaining balances from old grants. The council should repay the AIDS grant account for unallowed costs. It should work with the Department of Health to obtain approval for past budget variances and to resolve indirect costs charged to the AIDS project. (Finding 1, page 5)
- The council did not properly code grant receipts from the Department of Children, Families & Learning. The council should set up distinct operating accounts and grant accounts to facilitate accurate reporting of revenues and expenditures. (Finding 2, page 6)
- The council made \$3,135 of per diem payments to council members who were ineligible due to their employment with the State of Minnesota. The council should obtain repayment for the unallowed per diem payments. The council should have a procedure to obtain and monitor council member employment to ensure compliance with Minn. Stat. Section 15.0575. (Finding 3, page 9)

The Minnesota Legislature established the Council on Asian-Pacific Minnesotans in 1985 pursuant to Minn. Stat. Section 3.9226. The council assists the Asian-Pacific community in the governmental and policy making process; helps them gain better access to state government services; and acts as a bridge between the community and mainstream society.

This **audit report** contains the conclusions of our audit of the council's payroll, rent, grant administration, purchased services, and other administrative expenditures for the period from July 1, 1996, through June 30, 1999. The department's response is included in the report.

Council on Asian-Pacific Minnesotans

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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	Audit Manager
Mike Byzewski	Auditor-In-Charge
Heather White	Auditor

Exit Conference

We discussed the findings and recommendations included in this report with the following representatives of the Council on Asian-Pacific Minnesotans and the Department of Administration at an exit conference held on June 28, 2000:

Ilean Her	Executive Director
Adeel Lari	Council Chair
Larry Dowdle	Department of Administration, Financial Management
Mike Zabel	Department of Administration, Financial Management



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Representative Dan McElroy, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Adeel Z. Lari, Chair
Council on Asian-Pacific Minnesotans

Members of the Council on Asian-Pacific Minnesotans

Ilean Her, Executive Director
Council on Asian-Pacific Minnesotans

We have audited the financial activities of the Council on Asian-Pacific Minnesotans for the period from July 1, 1996, through June 30, 1999. Our audit scope included payroll, rent, grant administration, purchased services, and other administrative expenditures. The audit objectives and conclusions are highlighted 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 Council on Asian-Pacific Minnesotans complied with provisions of laws, regulations, contracts, and grants that are significant to the audit. The management of the council is responsible for establishing and maintaining the internal control structure and complying with applicable laws, regulations, contracts, and grants.

Pursuant to Minn. Stat. Section 3.975, this report has been referred to the Attorney General. The Attorney General has the responsibility to ensure the recovery of state funds and, in fulfilling that role, may negotiate the propriety of individual claims. The Attorney General may also cause criminal proceedings to be instituted by the proper authorities when warranted.

This report is intended for the information of the Legislative Audit Commission and the management of the Council on Asian-Pacific Minnesotans. This restriction is not intended to limit the distribution of this report, which was released as a public document on July 13, 2000.

/s/ James R. Nobles

James R. Nobles
Legislative Auditor

/s/ Claudia J. Gudvangen

Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

End of Fieldwork: May 26, 2000

Report Signed On: July 10, 2000

Council on Asian-Pacific Minnesotans

Chapter 1. Introduction

The Minnesota Legislature established the Council on Asian-Pacific Minnesotans in 1985 pursuant to Minn. Stat. Section 3.9226. The council assists the Asian-Pacific community in the governmental and policy making process; helps them gain better access to state government services; and acts as a bridge between the community and mainstream society. Additionally, the council advises the governor and legislature on issues of importance to the Asian-Pacific community. Approximately 140,000 Asian-Pacific Islanders, representing over 40 Asian ethnic groups, reside in the State of Minnesota.

Pursuant to statute, the Department of Administration provides the council with fiscal services in the areas of budgeting, purchasing, financial reporting, and human resource management. Administration enters the council's receipt, payroll, and disbursement transactions into the state's accounting system. Table 1-1 summarized the significant financial activity of the council for fiscal years 1997 through 1999.

Table 1-1
Council on Asian-Pacific Minnesotans
Sources and Uses of Funds

	<u>Fiscal Year</u> <u>1997</u>	<u>Fiscal Year</u> <u>1998</u>	<u>Fiscal Year</u> <u>1999</u>
Sources:			
State Appropriations ⁽¹⁾	\$148,813	\$272,000	\$265,743
Federal Grants	7,585	54,900	38,228
State Grants ⁽²⁾	0	20,000	68,000
Donations	7,877	6,152	13,992
Balance Forward In	<u>68,457</u>	<u>112,769</u>	<u>15,662</u>
Total Sources	<u>\$332,732</u>	<u>\$465,821</u>	<u>\$501,625</u>
Uses:			
Payroll	\$154,365	\$195,622	\$213,220
Rent	9,000	12,876	14,417
Purchased Services	5,103	35,689	59,820
Supplies and Equipment	21,426	11,647	15,867
Per Diems ⁽³⁾	3,850	4,565	3,740
Other Expenditures ⁽²⁾	26,219	48,433	73,866
Grant and Gift Refunds	0	41,327	47,351
Balance Forward Out	<u>112,769</u>	<u>115,662</u>	<u>73,344</u>
Total Uses	<u>\$332,732</u>	<u>\$465,821</u>	<u>\$501,625</u>

(1) State Appropriations are shown net of related cancellations in fiscal years 1997 and 1999.

(2) In fiscal year 1998, the council posted receipts from a \$20,000 state grant as a negative expenditure, rather than a grant receipt. The effect was an understatement of grant revenue and an understatement of other expenditures in that fiscal year. To properly reflect the council's activity, we increased fiscal year 1998 state grant revenue and other expenditures accordingly. See Finding 2 for more information.

(3) Includes unallowable per diems paid to state employees. See Finding 3 for more information.

Source: Minnesota Accounting and Procurement System (MAPS) data for fiscal years 1997, 1998, and 1999.

Council on Asian-Pacific Minnesotans

By statute, the council has 23 members. The council consists of 19 members from the Asian-Pacific community appointed by the Governor and four ex-officio members appointed from the legislature. No more than one member of each ethnic Asian-Pacific heritage group is represented on the council. The council holds bi-monthly public meetings.

Lee Pao Xiong served as executive director from July 1995 to September 1997. Ilean Her was appointed as his successor in November 1997.

Chapter 2. Grant Administration

Chapter Conclusions

The council did not properly administer and close out some of its grants. The council has remaining unspent balances from prior grants that have expired. In some cases, the council used unspent grant funds for other projects without specific grantor approval. For one grant, the council charged unallowed or questionable costs to the grant.

During the audit period, the council received several grants for specific purposes. A majority of the council's purchased service expenditures during the three-year period were grant-related. Table 2-1 lists the specific grants the council received and the purpose of each grant.

Table 2-1
Grant Funds Received
Fiscal Years 1997 through 1999

<u>State Grantor Agency</u>	<u>Description</u>	<u>Amount</u>
Strategic and Long Range Planning	Community Crime Study	\$ 6,750 ⁽¹⁾
Health	AIDS/STD Prevention	\$93,963 ⁽²⁾
Children, Families & Learning	Myths, Legends & Heroes Booklet	\$20,000 ⁽³⁾
Human Services	Youth Leadership Conference	\$10,000 ⁽⁴⁾
Children, Families & Learning	Clearinghouse of Best Educational Practices	\$58,000 ⁽⁵⁾

- (1) The total grant amount was \$9,000. The council received \$2,250 relating to the grant prior to the start of our audit period.
- (2) This was a 1997 federal grant. The total grant amount was \$99,115. The council could not complete the final portion of the grant and received only \$93,963.
- (3) The council accounted for this grant in its General Fund operating account as an expenditure refund. See Finding 2 for more information.
- (4) Expenditures for the conference exceeded the total grant amount by \$7,783. The council used gift funds to pay the remaining expenditures.
- (5) The council did not finish the grant project and subsequently refunded \$47,351 to the grantor.

Note: During the audit period, the council refunded \$23,615 from a 1992 Chemical Dependency Prevention Grant to the Department of Human Services. At June 30, 1999, the council had remaining grant balances of \$6,270 and \$10,535 from 1992 and 1997 Department of Health AIDS/STD Prevention grants, respectively. See Finding 1 for more information.

Source: Auditor prepared.

Audit Objectives and Methodology

Our audit of the council's grant administration focused on the following objectives:

- Did the office properly and accurately record grant revenues and expenditures in MAPS?
- Were grant expenditures reasonable and allowable?
- Was the council in compliance with grant agreements and related budgets?

Council on Asian-Pacific Minnesotans

To answer these questions, we interviewed office employees and reviewed grant agreements and budgets. We reviewed the associated expenditures and tested selected transactions.

Conclusions

As discussed in Finding 1, the council did not properly administer and close out some of its grants. The council has remaining unspent balances from prior grants that have expired. In some cases, the council used unspent grant funds for other projects without specific grantor approval. For one grant, the council charged unallowed or questionable costs to the grant.

In addition, the council did not account for its grants in a way that would facilitate tracking grant expenditures and matching those expenditures with the related grant awards. For example, the council combined its 1997 AIDS/STD grant into the same account with its 1992 AIDS grant, which had not been closed out. This made accounting to each individual grant more difficult. We also found that the Department of Administration made extensive use of adjusting and correcting entries to reallocate payroll and other costs to grants after the fact. Finally, as discussed in Finding 2, in one case the council recorded grant receipts as a negative expenditure rather than a grant revenue. All of these accounting practices made it more difficult for the council to properly account for its grant funds.

1. PRIOR FINDING NOT RESOLVED: The council did not properly administer certain grants.

The council has remaining unspent balances from prior grants that have expired. In some cases, the council used unspent grant funds for other projects without specific grantor approval. For one grant, the council charged unallowed or questionable costs to the grant.

The council did not properly reconcile, settle, and close a 1997 federal AIDS grant from the Department of Health. As of May 2000, the council had a remaining balance of \$10,535 even though the grant period expired on June 30, 1999. In addition, the council, without proper approval, exceeded the line-item budget amount for salaries and fringe benefits expressly stated in the grant agreement. The grant agreement required approval for any budget modifications of over 10 percent. The budgeted amount for salaries and fringe benefits was \$68,463. The council spent a total of \$78,848 in those two categories, a 15 percent variance. Also, the council erroneously charged \$1,436 in payroll costs to the grant for an employee who did not work on the grant project. Finally, the council charged statewide indirect costs totaling \$4,393 to the grant. The Department of Health did not include an indirect cost budget line item, even though Minn. Stat. Section 16A.127, subd. 4 requires agencies to charge indirect costs to all federal grants. Because of this, the allowability of charging indirect costs to the AIDS grant is unclear.

The council also has remaining unspent balances from prior AIDS and CD grants that have long since expired. Balances from these accounts have been carried forward from as far back as 1992 without any clear indication as to the source and intended disposition of the donor. In some cases, the council believes it incurred additional valid expenditures that could have been charged to the grants. However, the council has not attempted to identify allowable grant-related

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expenditures that were charged to other council accounts. In order to eliminate the remaining balances, the council paid a portion of the expenditures for its youth leadership conference from the AIDS and CD accounts. The council did not obtain prior approval from grantors before using remaining balances for this purpose.

Recommendations

- *The council should work with grantors and the Departments of Administration and Finance to resolve remaining balances from old grants.*
- *The council should repay the AIDS grant account for any unallowed costs. It should work with the Department of Health to obtain approval for past budget variances and to resolve indirect costs charged to the AIDS project.*

2. The council did not properly code grant receipts from the Department of Children, Families & Learning.

The Department of Administration accounted for a \$20,000 grant from the Department of Children, Families & Learning in the council's General Fund operating account as a negative expenditure. The purpose of the grant was to produce an educational resource booklet about people of the Asian-Pacific community.

In the state's accounting system, the council's general operating account does not accept dedicated receipts. Rather than setting up a new account to record this grant, Administration circumvented this control by posting the grant proceeds as a negative expenditure. The effect was an understatement of grant revenue and an understatement of expenditures.

Recommendation

- *The council should set up distinct operating accounts and grant accounts to facilitate accurate reporting of revenues and expenditures.*

Chapter 3. Administrative Expenditures

Chapter Conclusions

The council inappropriately paid \$3,135 in per diems to ineligible council members employed by the State of Minnesota.

The council properly and accurately recorded purchased service expenditures, rent, and other administrative expenditures in the state's accounting system. Except for the unallowable per diem payments noted above, expenditures were reasonable and in compliance with applicable legal provisions, grant agreements, and the council's special expense plan.

The council incurs a variety of administrative costs. Expenditures of a general nature are charged to the council's general operations account within the General Fund. These expenses include purchased services, rent, meals for council meetings, supplies, computers, network services, equipment, and per diem payments. The council has a small staff. The executive director and an office manager perform most of the administrative functions of the council.

Audit Objectives and Methodology

Our audit of administrative expenditures focused on the following questions:

- Did the office properly and accurately record administrative expenditures in MAPS?
- Were other administrative expenditures reasonable?
- Were administrative expenditures in compliance with applicable finance-related legal provisions, including grant agreements and the council's special expense plan?
- Were per diem payments proper and reasonable?

To answer these questions, we reviewed the council's grant agreements, lease agreements, and appropriations throughout the audit period. We interviewed council and Department of Administration staff to gain an understanding of the procedures used to process council transactions. We reviewed the transactions posted to the state's accounting system to determine whether the council properly recorded its expenditure transactions. Where applicable, we verified that payments were supported by properly executed contracts, purchase orders, and the council's special expense plan. We examined per diem payments during the audit period and verified council members' employment dates and determined whether they were full-time employees of the State of Minnesota.

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Purchased Services

A majority of purchased service expenditures were grant related. The council has a small staff and relied on purchased services to perform many of the grant requirements. The council spent approximately \$100,000 on purchased services during the three-year audit period.

Rent

The council relies on the Department of Administration to negotiate, prepare, and execute lease agreements. As of June 30, 1999, the council was renting 750 square feet of office space and was paying \$1,062 per month. The council also leased 100 square feet of storage space. The council's rental costs for fiscal years 1997 through 1999 totaled approximately \$36,000.

Per Diems

Council members receive a daily per diem of \$55 for the bi-monthly council meetings. The council paid a total of \$12,155 in per diems during the three-year audit period.

Minn. Stat. Section 15.0575 governs the council members' compensation. This section prohibits full-time employees of the state, or a political subdivision of the state, from receiving per diem compensation. In an opinion dated April 14, 1977, the Attorney General concluded that a full-time employee of the University of Minnesota was also ineligible, pursuant to this section.

Minn. Stat. Section 15.0575 states:

Members of the boards must be compensated at the rate of \$55 a day spent on board activities, when authorized by the board, plus expenses in the same manner and amount as authorized by the commissioner's plan . . . Members who are full-time state employees or full-time employees of the political subdivisions of the state may not receive the daily payment, but they may suffer no loss in compensation or benefits from the state or a political subdivision as a result of their service on the board.

Conclusions

The council inappropriately made per diem payments totaling \$3,135 to ineligible council members employed by the State of Minnesota.

The council properly and accurately recorded purchased service expenditures, rent, and other administrative expenditures in the state's accounting system. Except for the unallowable per diem payments noted above, expenditures were reasonable and in compliance with applicable legal provisions, grant agreements, and the council's special expense plan.

Council on Asian-Pacific Minnesotans

3. The council paid per diems to council members who were ineligible due to their employment.

The council paid per diems to three members who were ineligible due to their full-time employment with the State of Minnesota. We found that the council did not have a procedure to gather information on council members' places of employment, including whether the employment was full-time or part-time. The council also did not require members to notify council staff of employment changes during their appointment term.

Minn. Stat. Section 15.0575 prohibits full-time employees of the state from receiving per diem compensation. During the audit period, the council inappropriately made a total of \$3,135 in per diem payments to three council members who were full-time employees of the State of Minnesota. Table 3-1 summarizes the total per diem payments to ineligible members for the period from July 1, 1996, through June 30, 1999.

Table 3-1
Per Diem Payments to Ineligible Members
Fiscal Years 1997 – 1999

	<u>State Employer</u>	<u>Dates</u>	<u>Amount</u>
Council Chair	Transportation	4/9/96-1/25/00	\$1,320
Council Member	Human Services	8/13/96-1/25/00	1,045
Former Council Member	Natural Resources	6/11/96-11/9/99	770
Total			<u>\$3,135</u>

Note: Minn. Stat. Section 15.0575, which prohibits full-time employees of the state from receiving per diems, became effective on April 3, 1996.

Source: Auditor prepared from state payroll and accounting records.

As of May 26, 2000, the council had received a repayment of \$1,320 from the council chair for unallowable per diems.

Recommendations

- *The council should obtain repayment for the per diem payments to any members who were full-time employees of the state or a political subdivision of the state.*
- *The council should have a procedure to obtain and monitor council member employment information to ensure compliance with Minn. Stat. Section 15.0575.*

Chapter 4. Payroll

Chapter Conclusions

The council properly and accurately recorded payroll expenditures in the state's payroll and accounting systems. Payroll expenditures were reasonable in relation to the applicable bargaining agreements.

The council had payroll expenditures of approximately \$563,000 during the three-year audit period. Payroll costs were approximately 62 percent of the council's total expenditures. The council office consists of five full-time employees, including the executive director, an office manager, two management analysts, and one research analyst.

The Department of Administration provides human resources support and processes payroll for the council. Employees complete timesheets and leave slips each pay period.

Audit Objectives and Methodology

Our audit of payroll expenditures focused on the following questions:

- Did the office properly and accurately record payroll expenditures in the state's payroll and accounting systems?
- Were payroll expenditures reasonable in relation to the applicable bargaining agreements?

To answer these questions, we interviewed office employees, reviewed bargaining unit agreements, and performed analytical reviews of state payroll information.

Conclusions

The council properly and accurately recorded payroll expenditures in the state's payroll and accounting system. Payroll expenditures were reasonable.

Status of Prior Audit Issues

As of May 26, 2000

Most Recent Audit

Legislative Audit Report 97-19, issued in April of 1997, covered the four fiscal years ended June 30, 1996. The scope of this audit included gifts and grants, payroll, and contractual services. The report included five written issues related to grants, payroll, and contractual services. Prior Finding 1 related to the administration of grants. We originally reported this finding in our audit report on the council for the three years ended June 30, 1992. The finding still remains unresolved and is repeated as current Finding 1. We consider all remaining prior findings to be resolved.

State of Minnesota Audit Follow-Up Process
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<p>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 metropolitan agencies or the State Agricultural Society, the state constitutional officers, or the judicial branch.</p>
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July 6, 2000

James R. Nobles
Legislative Auditor
Office of the Legislative Auditor
Room 14 Centennial Building
658 Cedar Street
St. Paul, MN 55155

Re: Response to Auditor's Comments and Recommendations

Dear Mr. Nobles:

Below is our response to your comments and recommendations as the result of an audit that was done on our agency for the period of July 1, 1996, through June 30, 1999. We take your findings and recommendations seriously and have taken all speed in creating implementation mechanisms and procedures that will ensure we meet the recommendations and comply with the law.

Auditor's Finding – Chapter 2. Grant Administration

Finding 1: Prior Finding Not Resolved: The Council did not properly administer certain grants.

Response: The Council has worked with the Departments of Administration, Finance, and Health and we have determined the source and resolved the remaining balances for the 1997 AIDS grant. All expenditures and indirect costs have been reconciled to all the parties satisfaction. The grant is now closed and there is no remaining balance.

In the future, the Council will work more closely with the grantor whenever possible and also with the Department of Administration to keep careful and accurate accounting records and to ensure that timely corrections are made should errors be detected. But as with federal grants that require billing and with our current 'non-connection' to MAPS it is often times difficult to detect errors until months later. In the next year, we will explore the possibility and viability of the Council attaining MAPS access.

Person Responsible Ilean Her, Executive Director

Finding 2: The Council did not properly code grant receipts from the Department of Children, Families & Learning

Response: The Council has distinct operating accounts and grant accounts to facilitate accurate reporting of revenues and expenditures. For every grant of significant value that comes in and that is dedicated to a specific project, a grant account is set up for it to account for revenue and expenditure. In the future we will continue this practice as it helps us to keep track of revenue and expenditures and to meet reporting obligations as stipulated by the state and grantors.

Person Responsible: Ilean Her, Executive Director

Auditor's Finding – Chapter 3. Administrative Expenditures

Finding: The Council paid per diems to Council members who were ineligible due to their employment.

Response: In April 1996, the Council's enabling statute was amended and Minn. Stat. 15.0575 became the governing statute for Council member compensation which prohibits a full-time employee of the state or a political subdivision of the state from receiving compensation. Prior to the amendment Council members who were state employees were eligible for per diem and were paid accordingly. Due to a lack of oversight, the Council was not aware or made aware of the change in the law until February 2000. Council members new and old were not aware of this stipulation. As a result the Council paid per diems to ineligible employees.

Since February 2000, all Council board members and staff have been made aware of this situation and the requirement of law. **No further payments to ineligible members have been made.**

I have spoken to the three ineligible members that were paid inappropriately. They all understand the requirement of the law and the oversight. One board member has re-paid the full amount owing. The other two are committed to re-paying the amount they owe and will set up a payment schedule once we have determined the correct amount.

The Council has conveyed and stressed to board members that we need to know their employer while they are serving their term and have updated our database accordingly. We will continue to remind current board members of the law and inform and educate new board members as we get

James R. Nobles, Legislative Auditor

July 6, 2000

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them. We will continue to update our database and records as to where board members are employed to ensure compliance with Minn. State. Section 15.0575.

Person Responsible: Ilean Her, Executive Director

Again, steps have been taken to prevent future problems from occurring or re-occurring. We will continue to better our systems and procedures so as to meet our financial duties as stipulated by the law.

The Council appreciates this opportunity to respond to your findings. Should you have any questions, I can be reached at (651) 296-0538.

Sincerely,

/s/ Ilean Her

K. Ilean Her
Executive Director

Cc: Adeel Lari, Chair
Council on Asian-Pacific Minnesotans