

Financial-Related Audit

**Minnesota Labor Interpretive Center
Four Fiscal Years and Six Months Ended
December 31, 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.

All findings, conclusions, and recommendations in reports issued by the Office of the Legislative Auditor are solely the responsibility of the office and may not reflect the views of the LAC, its individual members, or other members of the Minnesota Legislature.

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If you have comments about our work, or you want to suggest an audit, investigation, evaluation, or best practices review, please contact us at 651-296-4708 or by e-mail at auditor@state.mn.us



OFFICE OF THE LEGISLATIVE AUDITOR

State of Minnesota • James Nobles, Legislative Auditor

Representative Dan McElroy, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. David Roe, Chair
Minnesota Labor Interpretive Center

We have audited financial activities of the Minnesota Labor Interpretive Center for the period July 1, 1995, through December 31, 1999, as further explained in Chapter 1. Our audit scope included payroll and administrative expenditures, including supplies, equipment, and professional contract services. 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 also require that we design the audit to provide reasonable assurance that the Minnesota Labor Interpretive Center complied with provisions of laws, regulations, and contracts significant to the audit. The management of the Minnesota Labor Interpretive Center was responsible for establishing and maintaining the internal control structure and for compliance with applicable laws, regulations, and contracts.

This report is intended for the information of the Legislative Audit Commission and the management of the Minnesota Labor Interpretive Center. This restriction is not intended to limit the distribution of this report, which was issued as a public document on September 22, 2000.

/s/ *James R. Nobles*

James R. Nobles
Legislative Auditor

/s/ *Claudia J. Gudvangen*

Claudia J. Gudvangen
Deputy Legislative Auditor

End of Fieldwork: June 14, 2000

Report Signed On: September 18, 2000

Minnesota Labor Interpretive Center

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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
Brad White, CPA, CISA	Audit Manager
Steven Johnson, CPA	Auditor-In-Charge
Heather White	Auditor

Exit Conference

We discussed the report with the following representatives of the Minnesota Labor Interpretive Center at an exit conference held on September 13, 2000:

David Roe	Chair, Minnesota Labor Interpretive Center
Russell Fridley	Former Interim Executive Director
Cindy Farrell	Chief Financial Officer, Department of Labor and Industry

Minnesota Labor Interpretive Center

Report Summary

The Minnesota Labor Interpretive Center is a public, non-profit corporation of the state operating under the authority of Minn. Stat. Chapter 138A. Its original mission was to foster learning and awareness about the history of labor and working people in Minnesota and to oversee the construction and operation of a new facility dedicated to labor history. During the audit period, the center's board of directors consisted of ten members, and the agency employed two staff. Mr. David Roe has been chair of the board since it was created.

The center no longer receives state appropriations to fund its operations. The Governor vetoed the center's operations funding as of July 1, 1999, and capital funding for a renovated facility was cancelled. The center's statutory authority still exists; however, it must receive funding from other sources, such as gifts, or continue as a volunteer organization.

Conclusions

For the items tested, the center properly compensated its employees, appropriately procured goods and services, and paid vendors based on management or board authorization. We found that the center accurately paid vendors for goods received and contract services performed. The center's transactions were properly recorded on the accounting system.

Financial-Related Audit Reports address internal control weaknesses and noncompliance issues noted during our audits of state departments and agencies. The scope of our audit work at the Minnesota Labor Interpretive Center included payroll and administrative expenditures. Our audit focused on proper recording of center transactions and compliance with finance-related legal provisions and management's authorization.

Minnesota Labor Interpretive Center

Chapter 1. Introduction

The Minnesota Labor Interpretive Center is a public, non-profit corporation of the state operating under the authority of Minn. Stat. Sections 138A.01 to 138A.06. The center was created in 1985 and is governed by a state-appointed board of directors. The original mission of the center was to foster learning and awareness about the history of labor and working in Minnesota and to oversee the construction of a new facility dedicated to labor history. It carried out its programs statewide through exhibits, seminars and conferences, and media presentations.

The center's board of directors consists of ten members; three appointed by the Governor, one appointed by the Mayor of St. Paul, and three members each from the state's Senate and House of Representatives. Mr. David Roe has been chair of the board since it was created. Russell Fridley was acting executive director of the center until January 4, 1999, when Tom Sersha was appointed its executive director.

The Minnesota Labor Interpretive Center received annual state appropriations of approximately \$200,000 to fund its operations. It also received a small amount of gifts, which were also used to fund operations. The center employed one staff member in addition to the executive director. Staff handled administrative affairs and developed plans for renovation of a building for the proposed labor center and construction of exhibits.

The Minnesota Labor Interpretive Center received administrative support from the Department of Labor and Industry. The center rented an office in the space occupied by the department. The Department of Labor and Industry entered all of the center's receipt, payroll, and disbursement transactions into the state's accounting system. Table 1-1 summarizes the financial activity of the center for fiscal years 1996 through 1999.

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Table 1-1
Sources and Uses of Funds
Fiscal Years 1996 through 1999

	1996	1997	1998	1999
Sources:				
State Appropriations ⁽¹⁾	\$140,000	\$150,891	\$207,000	\$209,354
Gifts and Interest	1,516	848	933	899
Balance Forward In	12,932	54,894	15,297	49,069
Transfer In	<u>1,068</u>	<u>1,939</u>	<u>0</u>	<u>0</u>
Total Sources	<u><u>\$155,516</u></u>	<u><u>\$208,572</u></u>	<u><u>\$223,230</u></u>	<u><u>\$259,322</u></u>
Uses:				
Payroll ⁽²⁾	\$ 40,868	\$ 42,556	\$ 43,575	\$ 97,460
Contracts	46,893	93,312	102,774	109,760
Other Expenditures	<u>12,861</u>	<u>57,407</u>	<u>27,812</u>	<u>34,971</u>
Total Expenditures	<u><u>\$100,622</u></u>	<u><u>\$193,275</u></u>	<u><u>\$174,161</u></u>	<u><u>\$242,191</u></u>
Balance Carried Forward	<u><u>\$ 54,894</u></u>	<u><u>\$ 15,297</u></u>	<u><u>\$ 49,069</u></u>	<u><u>\$ 17,131</u></u>

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

Note 2: Payroll costs for fiscal year 1999 include salaries for one full-time staff and a new executive director, previously under contract. In addition, \$13,606 in vacation payoff and severance costs were also incurred.

Source: Minnesota Accounting and Procurement System (MAPS) for fiscal years 1996, 1997, 1998, and 1999.

The center no longer receives state appropriation funding for operations. During the 1999 session, the Minnesota Legislature passed two bills containing appropriation funding for the Minnesota Labor Interpretive Center. The Capital Investment bill contained bonding reauthorization of \$613,453 to help complete the planning and design of the center and the Omnibus Economic Development bill contained \$400,000 for center programs and operations for the 2000-2001 biennium. However, Governor Jesse Ventura line item vetoed both the capital and operating appropriations for the center. He recommended that the center be terminated and its functions be combined with those of the Minnesota Historical Society.

The center planned to oversee the plan and design of the Labor History Center pursuant to Minnesota Laws for 1990, Ch. 610, Art. 1, Sec. 16, Subd. 4, which authorized spending not to exceed \$12,500,000. Minnesota Laws for 1998, Ch. 404, Sec. 72 increased the total cost of the project to \$14,000,000. 1998 Laws, Chapter 404, Section 13, Subd. 5 appropriated \$6 million to the Department of Administration for renovation and upgrades to the Science Museum in downtown St. Paul for the center. However, funding for the facility was cancelled. The Department of Administration did not expend any of the \$6 million of capital funding appropriation it received for renovation of the center's facility. The department used \$200,000 of the appropriation to fund another capital project, within the same section of the appropriation laws, under the authority of Minn. Stat. Section 16A.69, Subd. 2.

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The center's authorizing statute, Minn. Stat. Chapter 138A, still exists. The Legislature did not repeal or amend this statute during the 1999 or 2000 sessions. As a result, it is possible that the center could continue to function, despite the absence of a legislative appropriation. However, in order for it to be a viable organization, it must receive funds from other sources, such as gifts, or continue as a volunteer organization. As of April 2000, the center had expended all but \$1,700 of its gift funds held in the state treasury.

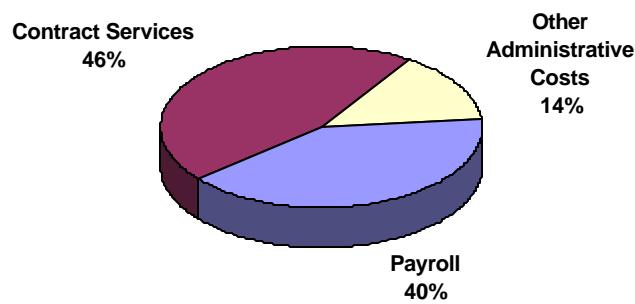
Chapter 2. Payroll and Administrative Expenditures

Chapter Conclusions

For the items tested, the Minnesota Labor Interpretive Center properly compensated its employees in compliance with the Managerial Plan and AFCSME contract, appropriately procured goods and services, and paid vendors based on management or board authorization. We found that the center accurately paid vendors for goods received and contract services performed; however, documentation supporting a \$5,000 payment for video services could not be located. The center's transactions were properly recorded on the accounting system.

The Minnesota Labor Interpretive Center spent \$242,191 for payroll, contract services, and other administrative costs for fiscal year 1999. Administrative expenditures consisted of rent, purchased services, travel, supplies, materials, and equipment. As shown in Figure 3-1, payroll and contract services comprise the largest percentage of expenditures.

Figure 3-1
Expenditures by Type
Fiscal Year 1999



Source: Minnesota Accounting and Procurement System (MAPS) for fiscal year 1999.

During fiscal years 1996 through 1999, the Minnesota Labor Interpretive Center board entered into annual professional services contracts with its acting executive director. The purpose of the contracts was to provide consulting services on labor history and museum development and to coordinate and oversee the development and operation of the center. Pursuant to the contract,

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the acting executive director was “to work directly with the Center’s Board of Directors, the Capitol Area Architectural and Planning Board, the Governor’s Office, the Legislature, state agencies, corporate and labor leaders, and all other private and public person and entities interested in the development of a labor museum or any other issues relevant to the Center.” In addition, other contractors were used to develop exhibits and programs to further the mission of the center and to carry out other tasks assigned by the center’s board or chair.

Minnesota Labor Interpretive Center staff were paid bi-weekly through the state’s payroll system (SEMA4). Minn. Stat. Section 138A.02 provides that center personnel would serve as executive branch state employees. The center employed one full-time staff person until January 4, 1999, when it hired a full-time executive director. The executive director transferred to the center from another state agency and, pursuant to the Managerial Plan, was allowed to bring in vacation and sick leave balances. Since funding ended in fiscal year 1999, the center was required to pay vacation liquidation of \$8,561 for the individual. In addition, the costs of severance and vacation payoff for the other staff person was \$5,045. These separation costs were a substantial financial burden for the center due to its limited budget.

Minn. Stat. Section 138A.01 provides “the labor interpretive center is a public corporation of the state and is not subject to the laws governing a state agency.” Since the Department of Labor and Industry processed the accounting transactions for the center, it typically followed state procurement policies and purchased items based on the authorization of the executive director or board chair.

Audit Objectives and Methodology

Our audit objectives for payroll and administrative expenditures focused on the following questions:

- Did the Minnesota Labor Interpretive Center properly compensate its employees in accordance with the applicable compensation plan or bargaining unit agreement and management’s authorization?
- Did the center properly procure goods and services and pay vendors in compliance with management’s authorization?
- Did the center properly record transactions in the accounting system?

To answer these questions, we interviewed former center staff and Department of Labor and Industry employees to gain an understanding of the processing of payroll and disbursement transactions. We analyzed employee compensation, tested transactions, and reviewed separation payments for compliance with the Managerial Plan or AFCSME contract and management’s authorization. We performed analytical procedures to determine the reasonableness of the expenditures. We also tested transactions to determine that management authorized that goods were received and services were rendered, and that the center accurately recorded the expenditures in the state’s accounting system. In addition, we determined that equipment purchases were updated in the fixed asset inventory system.

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Audit Conclusions

For the items tested, the Minnesota Labor Interpretive Center properly compensated its employees in compliance with the Managerial Plan and AFCSME contract, appropriately procured goods and services, and paid vendors based on management or board authorization. We found that the center accurately paid vendors for goods received and contract services performed; however, documentation supporting a \$5,000 payment for video services could not be located. The center's transactions were properly recorded on the accounting system.

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Status of Prior Audit Issues

As of June 14, 2000

There have been no prior audits of this agency.

State of Minnesota Audit Follow-up Process

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