



OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

Financial Audit

Minnesota Council on Disability
July 1, 1997, through June 30, 2000



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.

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- 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

Representative Dan McElroy, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Joan Wilshire, Chair
Minnesota Council on Disability

David Skilbred, Executive Director
Minnesota Council on Disability

We have audited financial activities of the Minnesota Council on Disability for the period July 1, 1997, through June 30, 2000. Our audit scope included payroll and council members' per diems, rent, travel expenditures, 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 internal controls relevant to the audit. The standards require that we design the audit to provide reasonable assurance that the Minnesota Council on Disability complied with provisions of laws, regulations, contracts, and grants that are significant to the audit. Management of the council is responsible for establishing and maintaining the internal control structure and complying with applicable laws, regulations, contracts, and grants.

This report is intended for the information of the Legislative Audit Commission and the management of the Minnesota Council on Disability. This restriction is not intended to limit the distribution of this report, which was released as a public document on February 22, 2001.

James R. Nobles
Legislative Auditor

Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

End of Fieldwork: January 11, 2001

Report Signed On: February 19, 2001

Minnesota Council on Disability

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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
Jim Riebe, CPA	Audit Manager
Mike Willis, CPA, CIA	Auditor-in-Charge

Exit Conference

The findings and recommendations in this report were discussed with the following staff of the Minnesota Council on Disability on February 9, 2001

David Skilbred	Executive Director
Daryl Schwier	Accounting Coordinator

Report Summary

Overall Audit Conclusion:

- The council's internal controls provided reasonable assurance that payroll and non-payroll expenditures except travel reimbursements were authorized and properly recorded in the state's accounting system. For the items tested, payroll expenditures were in compliance with applicable collective bargaining unit agreements.

Key Findings and Recommendations:

- The council did not adequately restrict employee access to its payroll and personnel system. Two council employees have access to functions in both the SEMA4 payroll and personnel system that is not required to perform their job duties. Unnecessary access could result in errors or irregularities in the council's payroll, which accounts for approximately 70 percent of the council's total expenditures. We recommended that the council limit access to the payroll and personnel system to the minimum level needed by employees to perform their duties. (Finding 1, page 5)
- The council did not ensure that some travel expense reimbursements were adequately documented or paid in accordance with state policy and applicable collective bargaining unit agreements. In some instances, travel departure and arrival locations and times were not documented on expense reports in accordance with state policy. Proper documentation is required to ensure eligibility for mileage and meal reimbursements. State travel regulations are detailed, complex, and pose challenges for state agencies to administer. We recommended, however, that the council require adequate documentation for expense reimbursements and pay reimbursements in accordance with applicable criteria. (Finding 2, page 6)

Agency Response:

The Minnesota Council on Disability agreed with the report's findings and is taking corrective action to resolve the issues.

Chapter 1. Introduction

The Minnesota Council on Disability was established by the Legislature in 1973 under Minnesota Statute Sections 256.481 and 256.482. The council serves as the primary agency that recommends and advocates programs and legislation that both promote the independence and improve the quality of life of disabled persons in the state. The council is composed of 21 members who are appointed by the Governor for staggered three-year terms. Council members represent both the general public and organizations that work with disabled individuals.

The members of the council select the executive director, who provides administrative leadership in implementing the council's mandates, policies, and objectives. The current executive director of the council is David Skilbred, whose appointment was effective November 22, 2000. The former executive director, Clell Hemphill, left the council in July 2000.

The council's activities include the following:

- expanding opportunities for all children and adults with disabilities and protecting their right to participate fully in society;
- providing information and referral services for individuals with disabilities;
- performing ombudsman services for individuals with disabilities; and
- informing, training, and educating the public about the Americans with Disabilities Act and other legislation that impacts the disabled.

The council receives its funding mainly from state General Fund appropriations. Table 1-1 summarizes the council's financial activity for the audit period.

Minnesota Council on Disability

Table 1-1
Sources and Uses of Funds by Fiscal Year

	<u>1998</u>	<u>1999</u>	<u>2000</u>
Sources:			
State Appropriations	\$616,000	\$631,000	\$650,000
Less: Cancellations	<u>0</u>	<u>(9,061)</u>	<u>0</u>
Net Appropriations	\$616,000	\$621,939	\$650,000
State and Federal Grants	0	28,786	0
Other Receipts	590	1,993	1,416
Transfers In ⁽¹⁾	0	0	62,350
Balance Forward In	<u>4,128</u>	<u>74,064</u>	<u>14,128</u>
Total Sources	<u>\$620,718</u>	<u>\$726,782</u>	<u>\$727,894</u>
Uses:			
Payroll and Per Diems	\$407,481	\$469,267	\$480,018
Rent	48,605	55,161	58,473
Travel Expenses:			
In State	20,496	25,773	16,997
Out of State	7,597	10,267	7,253
Supplies and Equipment ⁽²⁾	16,317	28,751	63,682
Other Administrative Expenditures ⁽³⁾	45,656	122,920	54,449
Balance Forward Out	74,064	14,128	47,022
Transfers Out	<u>502</u>	<u>515</u>	<u>0</u>
Total Uses	<u>\$620,718</u>	<u>\$726,782</u>	<u>\$727,894</u>

- (1) Transfers in represents the agency's share of the small agency supplemental appropriation according to the 1999 Laws of Minnesota, Chapter 250, Art. 1, Sec. 12.
- (2) The significant increase in supplies and equipment expenditures between 1999 and 2000 resulted from purchases of new computer hardware and other enhancements funded from the small agency supplemental appropriation.
- (3) The significant increase in other administrative expenditures between 1998 and 1999 was caused by increased expenditures for consultants and vendors for council projects, some of which were performed using special state and federal grant funding.

Source: Minnesota Accounting and Procurement System (MAPS) for fiscal years 1998, 1999, and 2000.

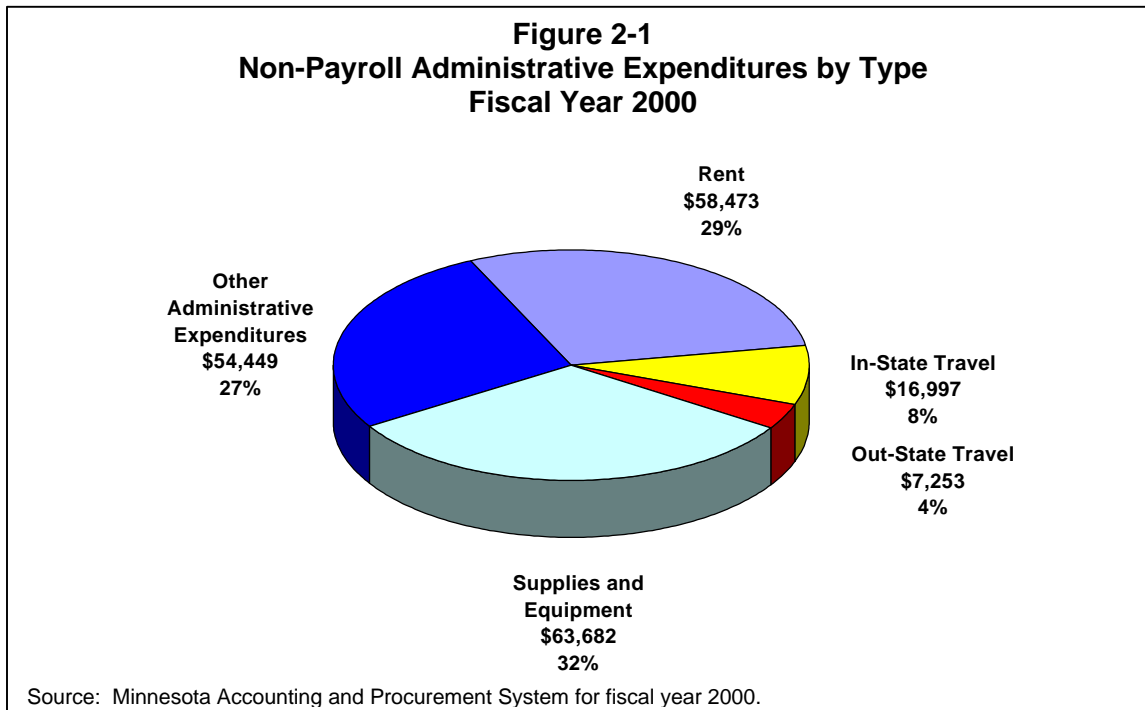
Chapter 2. Payroll and Other Administrative Expenditures

Chapter Conclusions

The Minnesota State Council on Disability's internal controls provided reasonable assurance that payroll and non-payroll expenditures except travel reimbursements were authorized and properly recorded in the state's accounting system. We found, however, that the council did not adequately restrict employee access over payroll and personnel transactions. In addition, the council needs to ensure that travel expenditures are adequately documented and paid in accordance with applicable collective bargaining unit agreements.

For the payroll items tested, expenditures were in compliance with applicable collective bargaining unit agreements.

The Minnesota Council on Disability's largest expenditure is payroll, which accounts for approximately 70 percent of all expenditures. Payroll and per diem costs totaled approximately \$480,000 in fiscal year 2000. The council employs approximately ten staff. The council's other administrative expenditures totaled approximately \$200,000 in fiscal year 2000. Figure 2-1 summarizes the council's total non-payroll administrative expenditures for fiscal year 2000.



Minnesota Council on Disability

Audit Objectives and Methodology

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

- Were payroll and other administrative expenditures authorized and properly recorded on the state's accounting system?
- Did the council comply with other finance-related legal provisions and collective bargaining unit agreements?

To answer these questions, we gained an understanding of the internal control structure over the processing and recording of payroll and other administrative expenditures. We analyzed changes in pay rates for all employees. We also analyzed the classes of transactions that were material or posed greater risk of error and performed additional reviews and testing of these classes of transactions. We tested samples of payroll and other administrative expenditure transactions to ensure that they were authorized and properly recorded.

Conclusions

The council designed internal controls to provide reasonable assurance that payroll and non-payroll expenditures except travel reimbursements were authorized and properly recorded in the state's accounting system. We found, however, that the council did not adequately restrict employee access to its payroll and personnel system as explained in Finding 1. In addition, the council needs to ensure that travel expenditures are adequately documented and paid in accordance with applicable collective bargaining unit agreements as explained in Finding 2.

For the items tested, payroll expenditures were in compliance with applicable collective bargaining unit agreements.

1. The council did not adequately restrict access to its payroll and personnel system.

The council granted two employees incompatible access to its payroll and personnel data. These employees have unnecessary access to either payroll data or personnel data in the SEMA4 payroll and personnel system. Both of these individuals have update access to all personnel and payroll functions. The job duties of one of the employees did not require access to the personnel functions in the system; the other employee's responsibilities did not require access to payroll data. This unnecessary access could result in errors or irregularities in the council's payroll expenditures that could be material since payroll accounts for approximately 70 percent of all council expenditures. Although the council has additional controls in place to monitor payroll expenditures, eliminating unneeded system access would enhance controls over payroll processing.

Minnesota Council on Disability

Recommendation

- *The council should limit access to the payroll and personnel system to the minimum level needed by employees to perform their job duties.*

2. The council did not ensure that some travel expense reimbursements were adequately documented or paid in accordance with applicable collective bargaining unit agreements.

In some instances, council expense reports did not clearly document travel departure and arrival times and destinations. According to state travel policies, expense reports must clearly detail departure and arrival times and locations in order to verify eligibility for meal and mileage reimbursements.

The council overpaid an employee for mileage from the employee's home to a temporary work location on several occasions. Collective bargaining unit agreements and state travel policies provide that state agencies should reimburse an employee for the shorter of the distance traveled between the employee's home to a temporary work location or from the employee's permanent work location to the temporary work location. The council has recovered the nominal overpayment.

In other instances we could not determine if the council reimbursed employees for mileage in accordance with state travel policies because the expense reports did not document the specific locations employees traveled to. It appeared that the travel distances shown on other expense reports could have been overstated. Although state travel regulations are complex and difficult to administer, the council needs to ensure travel reimbursements comply with applicable requirements.

Recommendation

- *The council should ensure that all expense reports are adequately documented and paid in accordance with applicable collective bargaining unit agreements.*

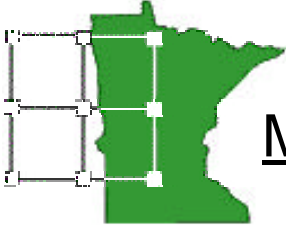
**Status of Prior Audit Issues
As of January 11, 2001**

Most Recent Audit

Legislative Audit Report 98-30, issued in May 1998, covered the two fiscal years ended June 30, 1997. The audit scope included payroll, council member per diem expenses, travel expenses, contractual services, and grants. The report included one written finding related to payroll. The council resolved this issue.

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 metropolitan agencies or the State Agricultural Society, the state constitutional officers, or the judicial branch.



Minnesota State Council on Disability

February 12, 2001

Mr. James R. Nobles, Legislative Auditor
Office of the legislative Auditor
Room 140 Centennial Building
658 Cedar Street
St. Paul, MN 55155

Dear Mr. Nobles:

The Office of the Legislative Auditor has completed its audit of the Minnesota State Council on Disability (MSCOD) for the period of July 1, 1997 through June 30, 2000. The exit conference for this audit was held February 9, 2001. The audit's conclusions were generally very positive. Two findings were made with recommendations.

This letter represents our comments on the audit as to each finding and recommendation contained in the report. Also enclosed is a description of our plans to respond to the findings to ensure greater oversight and full compliance with pertinent state laws and policies.

1. Audit Finding: The council did not adequately restrict employee access to its payroll and personnel system.

The audit concluded "two council employees have access to functions in both the SEMA4 payroll and personnel system that is not required to perform their duties." Although no irregularities were found, the audit concluded that this access "could result in errors or irregularities in the council's payroll." The audit recommended that the "council limit access to the payroll and personnel system to the minimum level needed by the employees to perform their duties."

Agency Response and Resolution: On February 16, 2001 our agency submitted the necessary SEMA4 Security Access forms to limit the access of two employees to the minimum level needed to perform their duties.

Person Responsible: Daryl Schwier, Accounting Officer

James R. Nobles
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2. Audit Finding: The council did not ensure that some travel expense reimbursements were adequately documented or paid in accordance with state policy and applicable bargaining unit agreements.

Here the audit concluded that “in some instances, travel departure and arrival locations and times were not documented on expense reports in accordance with state policy. Proper documentation is required to ensure eligibility for mileage and meal reimbursements.” The audit recommended, “the council require adequate documentation for expense reimbursements and pay reimbursements in accordance with applicable criteria.”

Agency Response and Resolution: A memo was provided on 2/15/01 to the Council Members and staff highlighting these areas of concern in order to remind members and staff of these requirements. Our agency will ensure that all expenses are adequately documented and paid in accordance with applicable collective bargaining unit agreements.

Person Responsible: Daryl Schwier, Accounting Officer

I want to thank you and your staff for the opportunity to discuss the results of this audit and offer this formal written response.

Sincerely,

/s/ David Skilbred

David Skilbred
Executive Director

cc. Ms. Joan Wilshire, Chair, Minnesota State Council on Disability