OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

Financial-Related Audit

Minnesota Partnership for Action Against Tobacco

September 21, 1998 through December 31, 2000

MAY 11, 2001 **01-24**

Financial Audit Division

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

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Members of the Legislative Audit Commission

Dr. Richard Hurt, Chair
Minnesota Partnership for Action Against Tobacco

Mr. David Willoughby, Executive Director
Minnesota Partnership for Action Against Tobacco

We have conducted a financial-related audit of the Minnesota Partnership for Action Against Tobacco (MPAAT), for the period September 21, 1998, through December 31, 2000. Our audit scope included financial management, investments, grants, payroll, and other administrative expenditures.

We conducted our audit in accordance with *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 MPAAT complied with the provisions of laws, regulations, contracts, and grants that are significant to the audit. MPAAT's management is responsible for establishing and maintaining the internal control structure and for compliance with applicable laws, regulations, contracts, and grants.

This report is intended for the information of the Legislative Audit Commission and the management of MPAAT. This restriction is not intended to limit the distribution of this report, which was released as a public document on May 11, 2001.

/s/ James R. Nobles

James R. Nobles
Legislative Auditor

/s/ Claudia J. Gudvangen

Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

End of Fieldwork: February 23, 2001

Report Signed On: May 7, 2001

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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
Thomas Donahue, CPA	Audit Manager
Joan Haskin, CPA	Auditor-in-Charge
Gena Hoffman	Auditor

Exit Conference

We discussed the findings and recommendations with the following representatives of the Minnesota Partnership for Action Against Tobacco at an exit conference on April 25, 2001.

David Willoughby	Executive Director
Mark Koenig	Director of Finance
Lynn Kenagy	Director of Communications
Lana Kopylou	Staff Accountant
Thomas Pursell	Outside Counsel

Report Summary

Overall Conclusions

The Minnesota Partnership for Action Against Tobacco (MPAAT) established policies and procedures consistent with the intent of the court-approved plan of administration, its articles of incorporation, and its bylaws. It also operated within available resources and in compliance with its authorized budget. MPAAT properly recorded its financial activities on the accounting system.

Key Findings and Recommendations:

- MPAAT did not adequately secure the balance in its checking account. MPAAT should manage the cash flow in its checking account or establish additional collateral pledges with its bank. (Finding 1, page 8)
- MPAAT did not retain reviewer scoring sheets to support recommendations to the board for funding grant proposals. Individual reviewer's scoring sheets should be kept to support the funding decisions made. (Finding 2, page 13)
- MPAAT needs to improve controls over reviewer honorariums and expenses. Program managers should approve honorarium payments. Expense reports should only be approved for payment if required receipts are attached. (Finding 3, page 13)
- MPAAT did not properly authorize or document some of its administrative expenditures. MPAAT should authorize all invoices for payment and ensure there is adequate supporting documentation on file. (Finding 6, page 18)

Background:

The Minnesota Partnership for Action Against Tobacco was incorporated as a Minnesota non-profit corporation on September 21, 1998, under Minn. Stat. Chapter 317A. MPAAT was created with a limited 25-year life. Its mission is to reduce the harm that tobacco causes the people of Minnesota. MPAAT is under the direction of a 21-member board of directors. MPAAT's operations are funded through the tobacco settlement and associated investment earnings. MPAAT's goal within its 25-year life is to transform the social environment through intervention and research to reduce tobacco use in Minnesota to less than ten percent by the year 2023.

Financial Related Audit Reports address internal control weaknesses and noncompliance issues found during our audits of state departments, agencies, and other entities for which we have audit jurisdiction. The scope of our audit work at the Minnesota Partnership for Action Against Tobacco included financial management, investments, grants, payroll, and other administrative expenditures. MPAAT's response to our recommendations is included in our report.

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Chapter 1. Introduction

Minnesota's historic tobacco litigation ended with a settlement agreement between the State of Minnesota and the tobacco industry on May 8, 1998. The Second Judicial District Court (Ramsey County) approved the Settlement Agreement and Stipulation For Entry of Consent Judgment (herein after referred to as "the agreement") on that date. The agreement also directed the Office of the Attorney General to submit a plan of administration for the Minnesota Partnership for Action Against Tobacco to administer a smoking cessation account and a national research account. The agreement further directed the tobacco industry to provide $202 million to fund the two accounts. The cessation account was to receive a one-time lump sum payment of $102 million by December 31, 1998. The national research account was to receive $10 million annually for ten years beginning on June 1, 1998. The court approved the plan on August 27, 1998.

The Minnesota Partnership for Action Against Tobacco (MPAAT) was incorporated as a Minnesota non-profit corporation on September 21, 1998, under Minn. Stat. Chapter 317A. MPAAT was created with a limited 25-year existence. Its mission is to reduce the harm that tobacco causes the people of Minnesota. MPAAT is under the direction of a 21-member board of directors. The Office of the Attorney General provided MPAAT with staff and guidance through December 31, 1998. Bank accounts were established to receive the tobacco settlement funds for the national research and cessation accounts. The tobacco industry paid the first annual installment of $10 million in June 1998 for the national research account. The Office of the Attorney General initially deposited the payment into the state's General Fund and subsequently transferred the funds to MPAAT's account in November 1998. The cessation account payment of $102 million was directly deposited to MPAAT's account in December 1998.

In early 1999 the MPAAT Board appointed Cessation and Research Advisory Committees to make program recommendations concerning the best use of the $202 million entrusted to it. MPAAT's bylaws were adopted in February 1999 and, in March 1999, MPAAT applied for and received its exemption from income taxes as an independent nonprofit foundation under the Internal Revenue Code, Section 501 (c) (3).

Kathleen Harty served as MPAAT's first executive director from February 1999 to February 2000. Christine Rice, an MPAAT board member, served as a part-time, unpaid interim executive director from March to November 2000. In November, the board hired David Willoughby as the executive director. Currently, MPAAT has a staff of ten employees.

MPAAT operates on a June 30 fiscal year end. MPAAT is not a state agency and receives no benefits or services from the state. As such, its accounting records and payroll information are not part of the state's reporting systems. However, for financial reporting purposes, MPAAT is treated as a discretely presented component unit in the state's Comprehensive Annual Financial Report. A public accounting firm annually audits MPAAT's financial statements. MPAAT has received unqualified reports each fiscal year of its two-year existence. Table 1-1 shows information from MPAAT's audited Balance Sheet as of June 30, 2000.

Table 1-1
Balance Sheet
As of June 30, 2000

Assets:	
Cash	$ 71,607
Settlement receivable	10,000,000
Prepaid expenses	32,204
Property and equipment (net of accumulated depreciation)	164,766
Investments	139,547,499
Settlement receivable – net of current maturities	47,700,000
Total assets	$197,516,076
Liabilities and net assets:	
Current liabilities	
Accounts payable – general	$ 118,648
Accrued expenses	59,141
Total current liabilities	$ 177,789
Net Assets:	
Unrestricted:	
Undesignated	$ 4,276,577
Designated for smoking cessation	108,276,997
Designated for tobacco research	84,784,713
Total Unrestricted	$197,338,287
Total Liabilities and Net Assets	$197,516,076

Source: MPAAT's audited financial statements as of June 30, 2000.

MPAAT's operations are funded through the tobacco settlement and associated investment earnings. MPAAT's goal within its 25-year life is to reduce tobacco use in Minnesota to less than ten percent by the year 2023. To achieve this goal, MPAAT will provide grants to health, community, and academic organizations throughout the state in support of research, intervention, and related program activities.

Chapter 2. Financial Management

Chapter Conclusions

MPAAT established policies and procedures consistent with the intent of the court-approved plan of administration, its articles of incorporation, and its bylaws. MPAAT's internal controls provided reasonable assurance that it operated within available resources and in compliance with its authorized budget. However, MPAAT did not adequately secure its checking account balance in excess of the FDIC insured limit. MPAAT's internal controls provided reasonable assurance that its investment policies were followed, and that investments and investment earnings were appropriately recorded in the accounting system. In addition, for the items tested, MPAAT complied with its board policies and applicable finance-related legal provisions.

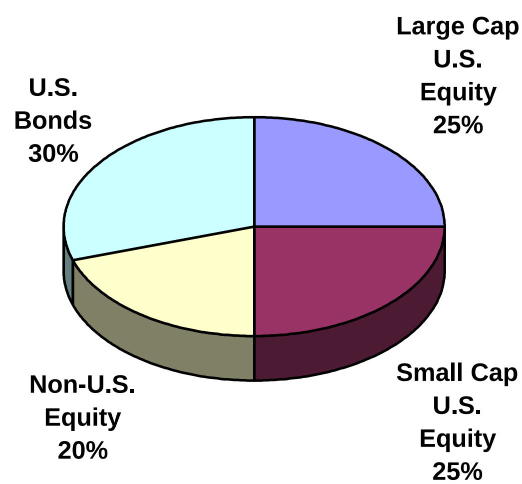
MPAAT's articles of incorporation and bylaws provide the financial foundation to guide MPAAT's day-to-day operations. The court approved plan of administration provides that the members of the board of directors should each have no affiliation with the tobacco industry and a demonstrated history of activities directed at or expertise related to reducing the human and economic consequences of tobacco use. MPAAT bylaws provide that directors must serve without per diem or other compensation, except for reasonable out-of-pocket expenses actually incurred. In addition, Article V of MPAAT's bylaws addresses issues of conflicts of interest and requires that officers and directors fully disclose to the organization the nature and extent of any conflicts of interest.

The board of directors developed and approved a policies and procedures manual addressing, among other things, fiscal management policies and procedures. These policies provided guidance concerning the budget process, banking relations, grant and program activities, the management of expenses and revenues, investment policies, and accounting practices. The policies also require an annual audit by an independent certified public accounting firm.

The board of directors established a number of board committees, including a Finance Committee. The Finance Committee consists of five board members and has responsibility for overseeing MPAAT's financial and investment activities. MPAAT also established an Investment Advisory Committee to provide advice to the Finance Committee. The Investment Advisory Committee is comprised of all members of the Finance Committee, as well as individuals with investment background and expertise. In addition, MPAAT contracted with an investment consulting firm to develop and recommend an investment policy and structure. MPAAT's investment policy outlines the types of authorized investments and states that the board shall not invest in the shares of any company which produces tobacco products, or in any mutual fund or similar investment fund which holds shares in any company which produces tobacco products.

MPAAT maintains two accounts at a local bank, a checking account and a money market savings account. The checking account functions as MPAAT's operating account. MPAAT opened the money market account in June 2000. MPAAT also maintains an investment account with a national bank. MPAAT transfers funds from its investment account to the operations account as needed. In June 2000, MPAAT contracted with five investment managers to manage various MPAAT investment activities. The market value of MPAAT investments at December 31, 2000, was $130,477,766. Figure 1-1 shows MPAAT's current asset allocation mix.

Figure 1-1
Current Asset and Allocation Mix



Source: MPAAT Statement of Investment Objectives and Policies.

The executive director has ultimate responsibility for the day-to-day operations of MPAAT. He and his staff are guided by the policies and procedures established by the board. According to its policy, MPAAT prepares a detailed revenue and expense line item budget, cash flow projection, and capital budget annually. The budget is reviewed and approved by the Finance Committee and subsequently recommended for adoption to the board. MPAAT staff provides the Finance Committee with monthly financial reports and statements. The full board receives summary financial statements when it meets.

Objectives and Methodology

Our review of MPAAT's overall financial management focused on the following questions:

- Did MPAAT establish appropriate policies and procedures, consistent with the intent of the court-approved plan of administration, its articles of incorporation, and its bylaws?

- Did MPAAT's internal controls provide reasonable assurance that it operated within available resources and in compliance with its authorized budget?

- Did MPAAT's internal controls provide reasonable assurance that its investment policies were followed and that investments and investment earnings were appropriately recorded in the accounting system?

- Did MPAAT comply with its board policies and applicable finance-related legal provisions?

To answer these questions, we interviewed MPAAT staff and board members to gain an understanding of the internal controls in place over MPAAT operations, including the budget process, the investment function, and bank account activities. We reviewed the Settlement Agreement and Stipulation for Entry of Consent Judgement, the Consent Judgment, the State of Minnesota's Memorandum in Support of Plan For Administration of Consent Judgment Funds, the court's Order Approving Plan of Administration Pursuant to Consent Judgment, and the court's Order Authorizing Final Transfer of Funds to MPAAT Operating Account and Requiring Payment to MPAAT of Future Consent Judgment Funds. We reviewed MPAAT's articles of incorporation and bylaws, the minutes of the board, the finance committee and investment advisory committee, the fiscal and investment policies and procedures manual, and reports of MPAAT activities submitted to the court and the Legislature. We also reviewed MPAAT's budgetary process, the year-end allocation of expenses to the cessation and research accounts, and bank account reconciliations. We also reviewed the agreements between MPAAT and its investment consultant and five investment money managers. Finally, we reviewed the workpapers of MPAAT's independent auditor.

We also noted that MPAAT allocates certain expenses to the intervention and research accounts annually. We were told that the allocation for fiscal year ended June 30, 2000, was based on a time study of the staff completed in April 2000. We reviewed the time study and noted that it appeared reasonable; however, the time study percentages developed were not used to allocate expenses at the end of the year. Because of turn over in staff, MPAAT could not explain why the final allocation percentages were different from those obtained as a result of the time study. Although the final allocations made to the accounts did not materially differ from the original time study percentages, MPAAT should endeavor to use an expense allocation process that is systematic, rational, and documented.

Conclusions

MPAAT established policies and procedures consistent with the intent of the court-approved plan of administration, its articles of incorporation, and its bylaws. MPAAT's internal controls provided reasonable assurance that it operated within available resources and in compliance with its authorized budget. However, as discussed in Finding 1, MPAAT did not adequately secure its checking account balance in excess of the FDIC insured limit. MPAAT's internal controls provided reasonable assurance that its investment policies were followed and that investments and investment earnings were appropriately recorded in the accounting system. In addition, for the items tested, MPAAT complied with its board policies and applicable finance-related legal provisions.

1. MPAAT did not adequately secure the balance in its checking account.

We noted, during our review of the bank statement reconciliations, instances where the checking account daily balances exceeded the $100,000 FDIC insurance limit. For example, during the month of December 2000, daily balances ranged from $129,440 to $506,729. Currently, MPAAT transfers funds from its investment account to the operations checking account as needed. Generally, the process of checks clearing the bank leaves the actual bank balance higher than the balance per the accounting system. The risk of loss to MPAAT increases as its checking account balance exceeds the $100,000 FDIC insurance limit.

Recommendation

- *MPAAT should manage the cash flow in its checking account to ensure the average bank balance does not exceed $100,000, or establish additional collateral pledges with its bank to cover its deposits when in excess of the FDIC insured amount.*

Chapter 3. Grant Expenditures

Chapter Conclusions

***Generally, MPAAT's internal controls provided reasonable assurance that grant expenditures were properly authorized and documented. However, MPAAT did not retain individual reviewer scoring sheets to support recommendations to the board for grants. We also noted that MPAAT did not approve all honorarium payments to reviewers, including some reimbursements for expenses. In addition, MPAAT needs to improve its documentation process for non-competitive grant payments. MPAAT properly recorded its grant expenditures and reviewer reimbursements in the accounting system. In addition, for the items tested, with the exception of the findings noted above, MPAAT complied with its board policies and applicable finance-related legal provisions over its grant expenditures and reviewer reimbursements*.**

In early 1999, MPAAT created a 23-member Research Advisory Committee and a 48-member Cessation Advisory Committee. MPAAT directed each committee to make recommendations to the MPAAT board for the best use of tobacco settlement resources in the research and cessation accounts. The committee reports dated July 21, 1999, provided the board with their funding recommendations. The board considered the recommendations of the committees and input from others, including the Targeted Populations Task Force, the U.S. Center for Disease Control's Best Practices, Minnesota legislators, as well as the experiences of other states. As a result of the process, MPAAT established policies and procedures governing grants from the research and cessation (intervention) accounts.

Research Grants

Pursuant to the court approved Consent Agreement, MPAAT's research account has received $10 million annually since June 1, 1998. As of December 31, 2000, MPAAT had deposited $30 million into its research account. These funds are to be used to facilitate research that will impact a reduction in tobacco use in the state. As of June 30, 2000, MPAAT had expended approximately $700,000 from the research account, primarily for program administrative expenses.

MPAAT awards two types of research grants: standard grants and Community Academic Research Award (CARA) grants. The standard grants provide up to three years of funding with a maximum annual direct cost of $150,000. CARA grants are awarded for collaborative research between community groups and academic researchers. Developmental CARA grants support the development of the research collaborative and provide up to 18 months of funding with a maximum annual direct cost of $75,000. The full CARA grants support the research collaboration and provide up to three years of funding with a maximum annual direct cost of $150,000.

MPAAT prepared requests for proposals (RFPs) for the research grants. The RFPs were released in February 2000 and placed on MPAAT's website and distributed to media outlets in the state.

Applicants for standard research grants and full CARA grants submitted applications of intent that summarized their proposals. MPAAT hired an independent panel to review and rank those applications. Applicants receiving the highest scores were asked to submit a full proposal. An outside scientific review panel reviewed the full proposals. All proposals that met the minimum acceptance level were forwarded to the Research Advisory Committee. The committee made its recommendations to the board, and the board made the final funding decisions. The first round of funding occurred in the fall of 2000. MPAAT awarded seven research grants totaling $2,344,621. Table 3-1 shows the type of research grant and the grant recipient:

Table 3-1
Summary of Research Grants Awarded

Standard Grants:	
University of Minnesota:	
Regents (Policy)	$ 210,198
Regents (Tobacco Cessation and Treatment)	449,620
Psychiatry (Tobacco Cessation and Treatment)	494,550
Mayo Clinic- (Tobacco Cessation and Treatment)	477,076
Total Standard Grants:	$1,631,444
Full CARA Grant:	
Center for Energy and Environment (Environmental Tobacco Smoke)	$ 470,501
Developmental CARA Grants:	
Hmong National Organization (Youth)	$ 119,319
University of Minnesota (Youth)	123,357
Total Developmental CARA Grants:	$ 242,676
Total Research Grants Awarded	$2,344,621

Source: MPAAT's Grants Management System - Grant Activity Report.

The grant period for research grants awarded ranged from 18 months to three years. The disbursement of grant funds occurs during the grant period and is outlined in the grant contract. Grantees submit progress and financial reports according to timelines specified in the grant contract. Grant funds awarded were not completely disbursed at the time of our review.

Intervention Grants

MPAAT received $102,000,000 from the tobacco settlement in December 1998 and deposited the funds to its cessation (intervention) account. These funds are to be used to support and fund effective smoking intervention strategies. As of June 30, 2000, MPAAT had expended approximately $3.4 million from the cessation (intervention) account. Of this amount, $2.8 million represents an in-kind contribution of nicotine patches for use in the cessation program. All patches were received and distributed for program purposes. Approximately $600,000 was for program administrative purposes

MPAAT established the following areas of emphasis for the first three years of funding: eliminating the exposure to secondhand smoke, countering pro-tobacco influences, and building community networks in Minnesota.

MPAAT prepared requests for proposals (RFPs) for the intervention grants. The RFPs were released in February 2000 and placed on MPAAT's website and distributed to media outlets in the state. Applicants submitted proposals to MPAAT. MPAAT staff reviewed the proposals for completeness and eligibility. MPAAT hired independent review panels who reviewed the proposals and made recommendations to the board. The board made the final funding decisions. The first round of funding occurred in July 2000. MPAAT awarded nine intervention grants totaling $2,325,337. Table 3-2 shows the type of intervention grant and the grant recipient:

Table 3-2
Summary of Intervention Grants Awarded

Community Projects to Eliminate Secondhand Smoke:	
MEETS Task Force	$ 152,806
North Central Service Co-op	200,000
Morrison County Public Health	120,386
American Cancer Society, Midwest Division	199,530
American Lung Association of Minnesota	369,000
Total Community Projects Grants	$1,041,722
Statewide Projects to Eliminate Exposure to Secondhand Smoke:	
Minnesota Smoke-Free Coalition	$ 592,050
Projects to Counter Pro-Tobacco Influences in Minnesota:	
Minnesota Smoke-Free Coalition	$ 201,565
Building Community Networks:	
Chicano Latinos Unidos En Servicio	$ 245,000
Asian Business and Community Foundation	245,000
Total Building Community Networks Grants	$ 490,000
Total Intervention Grants Awarded	$2,325,337

Source: MPAAT's Grants Management System - Grant Activity Report.

The grant period for intervention grants awarded ranged from 24 months to three years. The disbursement of grant funds occurs during the grant period and is outlined in the grant contract. Grantees submit progress and financial reports according to timelines specified in the grant contract. Grant funds awarded were not completely disbursed at the time of our review.

Non-competitive Grants

In addition to offering research and intervention grants, MPAAT also provided non-competitive grants. MPAAT established the Special Opportunities Communication Fund to help time-sensitive interventions throughout Minnesota. MPAAT allocated $2,000,000 through fiscal year 2002 for programs that necessitate a much quicker response than the regular process of obtaining funds through the RFP process.

Non-competitive grants under $25,000 are made at the discretion of the executive director. The board must approve grants over $25,000. The grant payment is split equally between the research account and the intervention account. During the audit period, MPAAT funded five non-competitive grant requests totaling $26,200.

Reviewer Expenses

MPAAT established policies and procedures over its research and intervention grant process. The review process includes an external review by experts in the field the application addresses. MPAAT compensated reviewers for their time through honorariums and reimbursed them for any reasonable out-of-pocket expenses for food, travel, and lodging. Reviewers complete an honorarium form and submit an expense report for out-of-pocket expenses to MPAAT for payment. Total payments for grant reviewer honorariums and expenses were $80,109 during the audit period.

Objectives and Methodology

Our audit of MPAAT's research and intervention grant expenditures, including reimbursements for reviewer expenses, focused on the following questions:

- Did MPAAT design and implement internal controls to provide reasonable assurance that its grant expenditures were properly authorized, documented, and recorded in the accounting system?

- Did MPAAT design and implement internal controls to provide reasonable assurance that its payments to grant reviewers were properly authorized, documented, and recorded in the accounting system?

- For the items tested, did MPAAT comply with board policies and applicable finance-related legal provisions for grant expenditures and reviewer reimbursements?

To answer these questions, we interviewed key personnel to gain an understanding of the internal control process over the intervention, research and non-competitive grant programs, and

MPAAT's reimbursement policy concerning payments to grant reviewers. We also reviewed the Research Advisory Committee Report and the Cessation Advisory Committee Report submitted to MPAAT with their corresponding grant funding recommendations. We reviewed MPAAT's grant procedures and the RFP grant process. We also reviewed board minutes to determine if the grants were properly authorized and approved. In addition, we performed detailed tests of grant expenditure transactions, including reimbursements to grant reviewers, to determine if they were properly supported and recorded in the accounting system.

Conclusions

Generally, MPAAT's internal controls provided reasonable assurance that grant expenditures were properly authorized and documented. However, as explained in Finding 2, MPAAT did not retain individual reviewer scoring sheets to support recommendations to the board for grants. We also noted, as discussed in Finding 3, that MPAAT did not approve all honorarium payments to reviewers, including some reimbursements for expenses. In addition, as discussed in Finding 4, MPAAT needs to improve its documentation for non-competitive grant payments. MPAAT properly recorded its grant expenditures and reviewer reimbursements in the accounting system. In addition, for the items tested, with the exception of the findings identified below, MPAAT complied with its board policies for grant expenditures and reviewer reimbursements.

2. MPAAT did not retain reviewer scoring sheets to support recommendations to the board for funding grant proposals.

MPAAT did not retain the individual scoring sheets completed by the review panelists. The scores for grant proposals are used to determine which proposals will be recommended to the MPAAT board for funding. We tested ten grants and found that only two files had individual reviewer's scoring sheets in them. We noted that MPAAT's program officer had prepared summarized scoring sheets with the group totals on them. However, complete supporting documentation, including individual reviewer's scoring sheets, should be retained to support the funding decisions made by MPAAT. Without documentation of actual scores, it cannot be determined if the proposals that received strong scores from the reviewers are the ones that MPAAT funded.

Recommendation

- *MPAAT should retain the individual reviewer's scoring sheets to support the funding decisions made.*

3. MPAAT did not document approval of honorariums and did not retain supporting documentation for some reviewer expenses.

MPAAT program managers did not approve the honorarium forms used to support payments to individual reviewers. The form is used to track the daily amount that each reviewer is to be paid. We reviewed 12 reviewer payment files and noted that no honorarium forms had been approved.

In addition, two out of the twelve files reviewed did not contain the required forms. We also noted three expense reports that were not approved by the program managers. One expense report did not have receipts attached to support the reimbursement for dinner. MPAAT policy requires such receipts.

We also found that reviewers for the intervention grants and the research applications of intent were paid $350 per day. The policy provided that reviewers would be paid $250 per day. MPAAT could not provide an explanation of why actual reimbursements exceeded its policy. Adequate documentation is necessary to support payments made to the reviewers. Without appropriate documentation and review, reviewers could be paid or reimbursed for work not completed or for unallowable expenses.

Recommendations

- *MPAAT should ensure that program managers approve honorarium payments and expense reports to provide the proper authorization and support for payments to reviewers.*

- *MPAAT should not reimburse reviewers for expenses without required receipts attached to the expense reports.*

4. MPAAT did not maintain adequate documentation for some non-competitive grants.

MPAAT does not have established criteria regarding required documentation for non-competitive (special opportunity) grants. Grantees request funds via phone calls, memos, or e-mail. The executive director can approve grants up to $25,000. The executive director or the communications director completes a grant form with the amount of approved funding. However, there is no authorized signature on the grant form. We could not find documentation of approval for four of the five grants made during the audit period. In addition, we noted one payment of $500 without any supporting documentation (request or grant form) on file. Without adequate supporting documentation and proper approvals, inappropriate payments may occur. Total non-competitive grants of $26,200 were made during the audit period.

Recommendations

- *MPAAT should develop a written policy governing the process for awarding and documenting non-competitive grants.*

- *MPAAT should have the executive director sign off and approve all grant payments.*

- *MPAAT should retain all supporting documentation for its non-competitive grants.*

Chapter 4. Payroll and Other Administrative Expenditures

Chapter Conclusions

MPAAT's payroll expenditures were appropriate and properly recorded in the accounting system. However, there is currently an inadequate separation of duties over payroll transactions. In addition, supervisors did not approve employee timesheets, and employees did not complete leave request forms. For the items tested, except for the items above, MPAAT complied with its board policies and applicable finance-related legal provisions regarding payroll.

MPAAT's internal controls over administrative expenditures need to be improved. MPAAT had not adequately documented its administrative expenditures or authorized some transactions for payment. Also, MPAAT had not approved several employee and board member expense reimbursement requests for payment. MPAAT properly recorded its administrative expenditures in the accounting system. For the items tested, except for the items above, MPAAT complied with its board policies regarding administrative expenditures.

Payroll

MPAAT currently has ten employees, who serve at will. The employee may be terminated at any time with or without cause without subjecting MPAAT to claim for breach of contract. MPAAT employees are not represented by employee bargaining units.

MPAAT has written personnel policies and a personnel handbook. The handbook explains employee classification, attendance, benefits, and termination policies. Benefits include sick leave, vacation leave, and personal leaves of absence, insurance coverage, and retirement benefits. MPAAT employees are paid on the 15th and last day of the month. All employees except two have their paychecks directly deposited. Employees complete a timesheet, which must be signed by the employee and the supervisor. MPAAT's full-time salary expenditures totaled $874,346 during the audit period. (Total personnel expenses for fiscal year 2000 were $615,103 per the audited financial statements – statement of functional expenses.)

MPAAT contracted with a private vendor to process its employee payroll checks, provide reports, and file various wage detail reports. The vendor also delivers the payroll checks and reports to MPAAT.

Objectives and Methodology

Our audit of MPAAT's payroll expenditures focused on the following questions:

- Did MPAAT's internal controls provide reasonable assurance that payroll expenditures were appropriate, properly authorized, documented, and recorded in the accounting system?
- For the items tested, did MPAAT comply with its board policies and applicable finance-related legal provisions relating to payroll?

To answer these questions, we interviewed MPAAT staff to gain an understanding of the controls in place over the payroll process. We reviewed MPAAT's policies and procedures regarding personnel and payroll and analyzed employee timesheets, leave balances, ADP reports, and bank account activity. We reviewed individual personnel files to determine if salaries appeared reasonable and in accord with salary limits established in the plan of administration.

Conclusion

MPAAT's payroll expenditures were appropriate and properly recorded in the accounting system. However, as discussed in Finding 5, MPAAT needs to strengthen controls over payroll. For the items tested, except for Finding 5, MPAAT complied with its board policies and applicable finance-related legal provisions regarding payroll.

5. MPAAT needs to strengthen controls over payroll.

Currently, MPAAT does not adequately separate duties over payroll transactions between its personnel and accounting functions. In addition, MPAAT supervisors are not authorizing employee timesheets, and employee leave request forms are not being submitted.

The staff accountant handles all payroll transactions, receives payroll reports from the vendor, and enters the payroll journal entries into the accounting system. In addition, the staff accountant informs the vendor of new employees, salaries, and any changes in salaries and hours worked. Other than the staff accountant, no one reviews the payroll reports and subsequent journal entries. This lack of review increases the risk that errors or irregularities could occur and go undetected.

During our testing, we found that supervisors did not sign any of the 18 timesheets we reviewed. MPAAT policies state that the executive director or the appropriate manager should sign the timesheets. The lack of approval increases the risk of employees being paid for time not worked. We also did not find Time Off Requests on file for leave recorded on 16 of the 18 timesheets tested. MPAAT policies require employees requesting vacation leave to complete a Time Off Request Form. The employee's supervisor is to approve the scheduled absence. While employees record vacation leave on their timesheets, the lack of Time Off Requests and approvals on the timesheets increases the risk that errors could occur or employees could take vacation or sick leave and not record it. The accountant also posts the leave accruals and usage based on the timesheets submitted to a spreadsheet.

Recommendations

- *Someone independent of the accounting function should review the vendor payroll reports for accuracy and follow up with the executive director on any changes or unusual items noted.*
- *MPAAT should ensure that timesheets are properly authorized.*

Administrative Expenditures

Our review of administrative expenditures included payments for non-payroll items, such as professional/technical services, purchased services, rent and utilities, printing and advertising, employee travel, equipment, and board member expenses.

MPAAT has general policies and procedures for purchasing. The purchasing function falls into three categories: general supplies, responsibility center expenses and supplies, and capital expenditures. Purchases of general supplies are the responsibility of the office administrator. The appropriate personnel approve each supply or service order request prior to its order. Responsibility center managers approve their expenses and supplies. Any supply or service requests not included in the responsibility center managers' annual budget, requires the prior approval of the executive director. MPAAT policy states that staff submit check request forms to the Finance Department along with the original invoice. The appropriate manager approves the check request forms.

MPAAT has a formal policy it follows to reimburse employees, including board members, for their actual expenses while traveling in the performance of MPAAT business activities. Board members do not receive per diems or other compensation but they are reimbursed for their actual expenses. Eligible expenses include mileage, at the rate prescribed by the Internal Revenue Service, meal expenses, lodging, transportation, and related expenses at actual costs. Alcohol is an ineligible expense for reimbursement. Total employee and board member expenses were $33,508 during the audit period.

MPAAT had established a corporate credit card to pay for employee expenses such as airfare, hotels, and registrations as well as other small administrative expenditures. The director of finance maintained the card until employees submitted a MPAAT charge request form. Once the executive director or the finance director approved the request, the employee was given the card to make the purchase. MPAAT maintained the card from July 1999 until November 2000. MPAAT expenditures charged against the credit card during that period was $60,564.

Objectives and Methodology

Our audit of MPAAT's administrative expenditures focused on the following questions:

- Did MPAAT's internal controls provide reasonable assurance that its administrative expenditures were properly approved, supported, and recorded in the accounting system?

- For the items tested, did MPAAT comply with board policies regarding administrative expenditures?

To answer these questions, we reviewed MPAAT policies and procedures and interviewed key personnel to gain an understanding of the internal control structure over the procurement and disbursement process. We performed detailed testing of professional/technical and purchased service transactions, equipment transactions, and employee and board member travel and expense reimbursements. We reviewed MPAAT's credit card procedures and tested credit card purchases to supporting documentation. We also reviewed a sample of administrative expenditures to determine if MPAAT complied with its policies.

Conclusion

MPAAT's internal controls over administrative expenditures need to be improved. As explained in Finding 6, MPAAT did not properly authorize or adequately document some of its administrative expenditures. MPAAT properly recorded its administrative expenditures in the accounting system. For the items tested, except for Finding 6, MPAAT complied with its board policies regarding administrative expenditures.

6. MPAAT did not properly authorize or adequately document some of its administrative expenditures.

During our review of administrative expenditures, we noted several invoices and board and employee expense reports that were not approved for payment. In addition, MPAAT maintained insufficient documentation to support board and employee expense reimbursements and certain credit card purchases. Finally, we also noted two isolated instances where alcohol was purchased and certain credit card charges were made for items that, lacking an MPAAT policy, appeared questionable.

MPAAT pays its bills out of its checking account. In addition, MPAAT utilized a credit card from July 1999 through November 2000 to facilitate payment of employee and board expenses. Board policy provides that program managers should approve all invoices for payment. In addition, if an invoice is to be paid by check, a check request form is to be completed and submitted to accounting along with the approved invoice for payment. Board policy also provided that expenses charged to the credit card required the executive director or the finance director to approve the request to charge form (which authorized the use of the credit card) and that original receipts be attached to the request form to support subsequent payment.

We noted three out of ten expenditure invoices paid by check were not approved for payment. In addition, no check request forms were completed for any of the ten items tested. In our review of employee and board member expense reports, we found 12 out of 44 reports tested were not approved for payment. We also found two payments not supported by an expense report.

Although MPAAT no longer maintains a credit card, we noted a number of transactions that had either no supporting documentation or insufficient documentation. We reviewed the charge statements for the period June 16, 2000, through December 15, 2000, and noted 13 charges totaling $1,600 for which there was no supporting documentation. The majority of these expenditures were for hotel charges. We found 19 charges totaling $5,232 on the credit card statement that had only the charge request form on file. We also found expenditures totaling over $3,100 that used the credit card receipt as supporting documentation. For charge transactions, an actual receipt or billing from the party providing the service or goods would be considered adequate support.

In addition, we found there was no supporting documentation on file for employee or board member reimbursements that occurred prior to July 1999. During our review of employee expense reports, we found phone calls on a hotel invoice totaling $144 over a period of five days. There was no documentation available to determine whether the calls were business related or personal. MPAAT policy allows $3 per day for personal phone calls. Without original invoices or supporting documentation, MPAAT faces the risk of paying for expenses that were previously reimbursed or for items not eligible for reimbursement.

Finally, in our testing we identified items that were not typical business expenses. We identified charges for flowers and balloons totaling $216, charges for a birthday lunch totaling $62, charges for alcohol beverages totaling $58, and a $10 charge for movie rentals. MPAAT policy specifically disallows reimbursement for alcohol. The other charges for flowers, balloons, and lunches were for occasions relating to personal events in various MPAAT employees' lives, such as birthdays and illnesses. MPAAT currently does not have a policy governing these special employee events. Within state government, a department head expense account may be used for various expenditures such as employee awards, recognition, or appreciation. MPAAT may want to establish in policy, an account with a reasonable dollar limit for special expenses, such as employee recognition, board member recognition or other events, such as births, deaths, and weddings of employees.

Recommendations

- *MPAAT should authorize all invoices for payment to ensure that only approved invoices are paid.*
- *MPAAT should ensure there is adequate supporting documentation on file for all expenditures.*
- *MPAAT should ensure employee and board reimbursements are authorized and only eligible items are reimbursed. In addition, MPAAT should recover the $58 it paid for alcohol beverages from the appropriate individual(s).*
- *MPAAT should establish a policy with guidelines to address the need for a special expense account for board or employee events such as employee recognition, member retirements, births, deaths, weddings, etc.*

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MPAAT
MINNESOTA PARTNERSHIP FOR ACTION AGAINST TOBACCO
FOR OUR HEALTH
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ST. PAUL MINNESOTA 55103
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May 7, 2001

Mr. James R. Nobles
Legislative Auditor
Office of the Legislative Auditor
Room 140, Centennial Building
658 Cedar Street
St. Paul, MN 55155-1603

Subject: Response to Financial Audit of the Minnesota Partnership for Action Against Tobacco for the period September 21, 1998, through December 31, 2000.

Dear Mr. Nobles:

Enclosed is the Minnesota Partnership for Action Against Tobacco response to the findings identified in the recent audit conducted by the Office of the Legislative Auditor.

Thank you for recognizing the challenges of starting up a unique organization. We intend to continue to improve on our financial and administrative processes and welcome your suggestions.

Our Executive Director, David J. Willoughby, M.A., is responsible for the resolution of all audit findings. The date of completion listed with each finding is our best estimate.

1. **MPAAT did not adequately secure the balance in its checking account.**

This finding is based on the fact that MPAAT, an independent, nonprofit organization, sometimes had more than $100,000—the FDIC-insured limit—in its account. Unlike governmental entities, corporations (nonprofit and for-profit) are not required by state statute to obtain additional security for balances of more than $100,000. We will ask our Finance Committee and Board to discuss this issue by July 31, 2001, and we will continue to monitor the availability of reasonably priced measures to mitigate this minimal risk.

2. **MPAAT did not retain reviewer scoring sheets to support recommendations to the board for funding grant proposals.**

We agree with this finding. We instituted a policy in November 2000 that requires reviewers to sign their final scoresheet and these scoresheets, along with the summary scoresheet, are retained.

3. **MPAAT did not document approval of honorariums and did not retain supporting documentation for some reviewer expenses.**

We agree with this finding. We instituted a policy in November 2000 that mandates Program Officers to require receipts before approving honorariums and expense reports. The Director of Finance and Executive Director must also approve honorariums and expense reports.

Expected completion date: Completed / Ongoing

4. MPAAT did not maintain adequate documentation for some non-competitive grants.

We agree with this finding. The Executive Director, Director of Finance and Director of Communications will develop a written policy for awarding non-competitive grants and will institute a procedure for maintaining documentation for the non-competitive grants. The Executive Director will continue to approve all grant awards, in accordance with our financial policies.

Expected completion date: July 31, 2001

5. MPAAT needs to strengthen controls over payroll.

We agree with this finding. We instituted a policy in November 2000 that requires supervisors to sign employee timesheets. The Director of Finance reviews, and initials, the payroll reports completed by the Staff Accountant. Finally, we have instituted a policy that requires the first payroll check for a new employee to be signed by the Executive Director.

Expected completion date: Completed / Ongoing

6. MPAAT did not properly authorize or adequately document some of its administrative expenditures.

We agree with this finding. We have instituted a policy requiring Program Officers, the Director of Finance, the Director of Communications or the Executive Director to approve expense reports and to verify adequate documentation is attached. A notice has been added to the expense reimbursement form requiring the submitter to certify, via their signature, that the expenses are within MPAAT's expense reimbursement guidelines and were exclusively for MPAAT-related business. We have made partial recovery of non-reimbursable expenses and will continue to attempt to recover the remaining. Finally, we will develop a policy regarding a special expense account for Board and employee recognition.

Expected completion date: July 31, 2001

If you have any questions concerning our response, please contact me at
(651) 312-3902. Thank you.

Sincerely,

/s/ David J. Willoughby

David J. Willoughby, M.A.
Executive Director
Minnesota Partnership for Action Against Tobacco