OLA

OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

Financial Audit

Perpich Center for Arts Education

July 1, 1997, through June 30, 2000

AUGUST 16, 2001 **01-40**

Financial Audit Division

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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.

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

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OFFICE OF THE LEGISLATIVE AUDITOR
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Ms. Ellen Palmer, Chair
Board of Directors of the Perpich Center for Arts Education

Members of the Board of Directors of the Perpich Center for Arts Education

Dr. David O'Fallon, Executive Director
Perpich Center for Arts Education

We have audited selected financial activities of the Perpich Center for Arts Education for the period July 1, 1997, through June 30, 2000, as further explained in Chapter 1. Our audit scope included financial management, revenues, payroll, administrative, and grant expenditures. We highlight the audit objectives and conclusions in the individual chapters of this report.

We conducted our audit in accordance with *Government Auditing Stan*dards, as issued by the Comptroller General of the United States. These 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 Perpich Center for Arts Education complied with the provisions of laws, regulations, contracts, and grants significant to the audit. Management of the center 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, the management of the Perpich Center for Arts Education, and the members of the Perpich Center for Arts Education Board of Directors. This restriction is not intended to limit the distribution of this report, which we released as a public document on August 16, 2001.

/s/ James R. Nobles

James R. Nobles
Legislative Auditor

/s/ Claudia J. Gudvangen

Claudia J. Gudvangen
Deputy Legislative Auditor

End of Fieldwork: April 20, 2001

Report Signed On: August 9, 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
Cecile Ferkul, CPA, CISA	Audit Manager
Jack Hirschfeld, CPA	Auditor-In-Charge
Theresa Hahn	Auditor
Irene Hass	Auditor
Connie Stein	Auditor
Heather White	Auditor
Teresa Anderson	Intern

Exit Conference

The following staff from the Perpich Center for Arts Education participated in the exit conference held on July 24, 2001:

David O'Fallon	Executive Director
Bill Clausen	Acting Deputy Director
Bob Raiolo	Director of Operations
Mark Youngstrom	Director of Academic Programs
Pamela Paulson	Director of Research, Assessment and Curriculum
Mike Hiatt	Director of Professional Development Institute
Mary Pietruszewski	Director of Student Life

Report Summary

The Perpich Center for Arts Education (the center) operated within available financial resources and generally complied with legal provisions and management's authorizations. The center made some improvements in its financial management practices since our last audit. However, we found the following issues.

Key Findings:

- The center did not properly account for state grant funds. We recommended that the center return certain grant funds to the state's General Fund, comply with the terms of all grant contracts, and structure its accounting records to separately account for each grant award and identify related grant expenditures and any remaining cash balance. (Finding 1, page 6)

- The center lacked control over its fixed assets. We recommended that the center develop comprehensive fixed asset policies and procedures to ensure that it adequately safeguards and accounts for its investment in fixed assets. (Finding 5, page 11)

- The executive director did not appropriately update his economic interest statement. In his most recent statement, he did not disclose the speaker fees he received from art organizations for outside speaking engagements on his own time. We recommended that he submit a revised economic interest statement to the Campaign Finance and Public Disclosure Board. (Finding 6, page 12)

- The center inappropriately paid per diems to two board members. Statutes prohibited the payments to the board members due to their full-time employment with the University of Minnesota. One board member reimbursed the center for the payments. We recommended that the center collects reimbursement from the other board member, and ensures that board members are aware of the per diem restrictions. (Finding 7, page 13)

The Perpich Center for Arts Education is a state agency that consists of: the Arts High School (a statewide, tuition-free, public high school for 11th and 12th grades); the Professional Development Institute (which provides comprehensive teaching and learning skills to Minnesota students, teachers and artists); and the Research, Assessment and Curriculum Program (which initiates and facilitates research and creates educational products and services related to student achievement, assessment of student work, curriculum development, and best instructional practices using the arts). The scope of the audit included revenues, payroll, administrative expenditures, and grant expenditures. The center's response is included in this report.

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Chapter 1. Introduction

The 1985 Legislature created the Perpich Center for Arts Education (the center) to meet the needs of Minnesota students interested in creative and interpretive arts. The Perpich Center for Arts Education consists of the Arts High School, the Professional Development Institute, and the Research, Assessment and Curriculum Program.

The Arts High School is a statewide public high school serving approximately 300 students in the 11th and 12th grades who are motivated and talented in the arts. The school accepts students from the state's eight congressional districts through a competitive review process governed by administrative rule.

The Professional Development Institute provides professional development opportunities statewide to teachers and teaching artists in the K-12 system. The center works with schools and art organizations that commit staff and resources to plan and deliver professional development grants specific to their region of the state, community, or clients.

The Research, Assessment and Curriculum Program initiates and facilitates research and creates educational products and services related to student achievement, assessment of student work, curriculum development, and best instructional practices using the arts. The center shares its research findings through professional development programs, electronic and print media, special briefings, and informational sessions.

A gubernatorially appointed board is responsible for the management, supervision, and control of the center and of all related property. At its bimonthly meetings, the board approves the center's budget and monitors its financial activity, approves grant awards, oversees facility management, and reviews various legislative proposals. The board's finance, personnel, programs, and executive committees assist the full board in the discharge of its duties. Eligible board members are entitled to a per diem payment of $55 for every official meeting and reimbursement of expenses according to state guidelines.

The board appoints an executive director to oversee the center's daily operations. Dr. David O'Fallon has served as the executive director since 1995. The executive director appoints various directors to assist in managing the operations within the center. The finance director is responsible for the recording of financial activity on the state's accounting and procurement system.

A biennial state appropriation provides the center with the majority of its funding. In addition, the center collects residential and other student fees, private grants, and state and federal grants. Major expenditure categories include payroll, grants to other art and education organizations, operating expenditures, and equipment. Table 1-1 summarizes the center's financial activity for fiscal years 1998 through 2000.

Table 1-1
Sources and Uses of Funds
July 1, 1997, through June 30, 2000

	Fiscal Year 1998	Fiscal Year 1999	Fiscal Year 2000
Sources:			
Appropriations	$5,559,000	$6,120,000	$7,239,000
Less: Cancellations	(1,621)	(26,848)	0
Net Appropriations	$5,557,379	$6,093,152	$7,239,000
Balance Forward In	403, 648	892,810	723,237
Revenues:			
Student Fees	269,753	274,586	303,476
Private Grants	561,732	867,909	443,730
State Grants	282,345	310,000	57,250
Other Revenues	169,564	149,268	224,540
Total Revenues	$1,283,394	$1,601,763	$1,028,996
Total Sources of Funds	$7,244,421	$8,587,725	$8,991, 233
Uses:			
Payroll	$3,580,270	$3,842,142	$4,401,125
Grants	1,024,813	1,313, 844	921,389
Operating Expenditures[1]	1,533,803	2,234,130	2,187,271
Equipment	117,243	378,379	259,833
Total Expenditures	$6,256,129	$7,768,495	$7,769,618
Transfers Out[2]	95,482	95,993	75,000
Balance Forward Out	892,810	723,237	1,046,615
Total Uses	$7,244,421	$8,587,725	$8,991,233

Note 1: Operating Expenditures included encumbrances as of May 2001.

Note 2: Transfers Out consisted of the center's annual $75,000 transfers to the State Arts Board for the education residency project and transfers to the Department of Finance for the Pension Uniformity Bill.

Source: Minnesota Accounting and Procurement System.

Chapter 2. Student Fees, Private Grants, and State Grants

Chapter Conclusions

The Perpich Center for Arts Education properly recorded student fee receipts and private grants in the state's accounting system. However, the center did not properly account for state grant funds. The center did not accurately record grant awards in the board's meeting minutes. The center also did not adequately safeguard receipts before deposit. For the items tested, the center complied with applicable statutory provisions and used student fee receipts, private grants, and state grants for their intended purposes.

While the majority of the center's funding comes from state appropriations, the center also received funding from student fees, private grants, and state grants. The center maintained financial records to document and support the activities related to each of the resources.

Student Fees

The center charged various fees to the Arts High School students. Resident students paid a residential fee of $1,350 for fiscal year 1998, $1,450 for fiscal year 1999, and $1,600 for fiscal year 2000. The activity fee, damage deposit, and emergency deposits were $50, $50, and $175, respectively, for the three years ending June 30, 2000. The board of directors reviewed and set these fees annually to ensure that they were sufficient to cover the related costs. The center refunds unspent damage and emergency deposits to the students at the end of the school year. Table 2-1 summarizes the fees collected during fiscal years 1998-2000.

Table 2-1
Student Fees
Fiscal Years 1998 through 2000

	1998	1999	2000
Residential Fees	$164,432	$173,036	$190,811
Activity Fees	16,344	14,214	16,719
Damage Deposits	17,764	15,328	17,370
Emergency Deposits	5,188	4,800	5,260
Other Fees[1]	66,025	67,208	73,316
Total	$269,753	$274,586	$303,476

[1] Other fees consist of cafeteria and van transportation.

Source: Minnesota Accounting and Procurement System.

Perpich Center for Arts Education

The center had a subsidiary accounting system to record the financial activity for each student. This accounting system maintained records of all transactions related to the student. Using these subsidiary records, the center billed the students' parents each semester. The receptionist received the payments, entered them on a check log, and forwarded them to the accounts receivable clerk. The account receivable clerk recorded the receipts in detail on the subsidiary accounting system and in summary on the state's accounting system. The center deposited the receipts into a state depository account that swept the funds into the state treasury.

Private Grants

The center received its largest private grant from the Annenberg Foundation. The foundation awarded a $3.2 million grant pending a match by other private funds. Matching contributions as of January 2000 exceeded $3.3 million. The "Annenberg Challenge" was a partnership between the center and the Minneapolis school district to accelerate student achievement in and through the arts. The center received $1.2 million of the total grant award during fiscal years 1998 through 2000. (The remaining funds are available through June 30, 2002.) The center served as the fiscal agent and the executive director served on the governing board for the grant. In accordance with the grant agreement, the center retained ten percent to offset administrative costs and passed just over $1 million to the Minneapolis school district, once it met matching requirements.

The center received other private grants, totaling approximately $700,000, to promote education in the arts. The center combined these private funds with state appropriations to make grants to school districts, art organizations, and individuals based on board approval.

State Grants

During the three-year period ending June 30, 2000, the Minnesota Department of Children, Families & Learning (CFL) granted the center nearly $650,000 from a General Fund program. The center used the grant funds to train school district staff statewide about the state's new graduation standards, the Profiles of Learning, and the Arts Best Practice Network. The grant contracts between the center and CFL normally provided for specific grant payment dates and amounts, with a final payment based upon completion of products and activities. Costs charged to these grants included seminars and workshops, food and lodging, in-state travel for center staff and school district personnel, supplies, space rental, and administrative overhead.

Audit Objectives and Methodology

Our audit scope for student fee receipts, private grants, and state grants focused on the following objectives:

- Did the Center for Arts Education adequately safeguard and accurately record student fees, private grants, and state grants in the accounting records?

- For the items tested, did the center comply with applicable legal provisions and student fees, private grants, and state grants for their intended purposes?

To answer these questions, we interviewed center employees to gain an understanding of the controls over receipts and expenditures for student fees, private grants, and state grants. We assessed risks and performed analytical tests to identify possible unusual trends. We reviewed and tested the accounting records for each of the respective areas to determine whether the center properly recorded revenues and expenditures in the accounting records. We reviewed the fee rates charged to students to verify the accuracy of fee receipts. We also reviewed grant agreements and donation records to ensure that the center complied with agreement specifications.

Conclusions

The Perpich Center for Arts Education properly recorded student fee receipts and private grants in the state's accounting system. However, the center did not properly account for state grant funds. The center did not accurately record grant awards in the board meeting minutes. The center also did not adequately safeguard receipts before deposit. For the items tested, the center complied with applicable statutory provisions and used student fee receipts, private grants, and state grants for their intended purposes.

1. The Center for Arts Education did not properly account for state grant funds.

The center did not properly account for the grant funds it received from the Minnesota Department of Children, Families & Learning (CFL). Therefore, it could not properly identify expenditures for specific grants. In addition, it did not monitor grant availability periods and did not determine unspent balances for each grant.

During fiscal years 1998 through 2000, the center received state grants totaling nearly $650,000 from CFL under various grant agreements. (Table 2-2 shows the various grants the center had with CFL and when the center received the funds.) Generally, CFL granted the funds to the center to coordinate training related to the implementation of the Profiles of Learning and Graduation Rule requirements and to develop and disseminate arts best practices. Each of the grant agreements specified a period that the grant was in effect, adding the statement "or until all obligations set forth in this agreement have been satisfactorily fulfilled, whichever occurs first."

Table 2-2
Grants Received from CFL
Fiscal Years 1998 through 2001

Grant Purpose	Grant Period	Grant Amount	1998	1999	2000	2001
Graduation Rule	7/1/96 – 6/30/97 (1)	$ 25,500	$ 12,750			
Profile of Learning Training	5/27/97 – 6/30/97	$210,000	$210,000			
Revise "Distinction in Theater" document	11/1/97 – 6/30/98	$ 25,000	$ 18,750		$ 6,250	
Learning Assessments for Profile of Learning	4/15/98 – 6/30/98	$ 50,000	$ 40,000	$ 10,000		
Graduation Rule	7/1/98 – 6/30/99	$300,000		$300,000		
Arts Best Practices	3/13/00 – 6/30/00 (2)	$ 55,000			$ 50,000	
Arts Best Practices	2/9/01 – 6/30/01	$ 35,000				$ 35,000
Receipts from Unidentified Source		$ 1,845	$ 845		$ 1,000	$ 100
Total Grants Received			$282,345	$310,000	$ 57,250	$ 35,100
Balance Forward from Prior Fiscal Year			133,692	227,585	318,087	248,869
Total Available as Recorded in Accounting System			$417,583	$537,585	$375,337	$283,968
Expenditures, including Encumbrances, through June 30, 2001			(188,452)	(219,498)	(126,468)	(188,034)
Balance Forward to Next Fiscal Year			$227,585	$318,087	$248,869	$ 0
Remaining Available as Recorded in Accounting System			$ 0	$ 0	$ 0	$ 95,934

Note 1: The center received the first half of this grant in fiscal year 1997.
Note 2: The center had not received the $5,000 balance of this grant by the end of fiscal year 2001.

Source: Grant agreements and the Minnesota Accounting and Procurement System.

The center did not account for the grant funds on a grant-by-grant basis, but rather recorded the grant receipts in a shared account from which it paid grant costs. The subsidiary accounting system the center used to monitor grant expenditures tracked the expenditures by fiscal year rather than by grant award. Since the center typically could not fulfill the grant obligations by the end of the specified availability periods, it carried forward unspent grant funds to the following fiscal years and continued to incur costs. Because of the poor accounting practices, the center could not determine to which grants the $95,934 cash balance at June 30, 2001, was attributable.

The center should have maintained accounting records that allowed it to monitor the status of individual grants and identify grant obligations and available balances on a grant-by-grant basis. If the center determined that the grant obligations could not be fulfilled within the specified availability period, it should have either returned the unspent grant funds to the state's General Fund at the end of the grant period or requested an amendment to the grant agreement to allow for an extended availability period.

In addition, the center earned interest on the unspent grant funds throughout the period. The center credited the interest earnings to its operating account. The center had no legal authority to retain the interest earned. Since the funds were originally General Fund appropriations to CFL, the interest should have accrued to the state's General Fund. In May 2001, the center transferred $52,729 back to the General Fund to reimburse it for the interest the center earned on the unexpended grant balance.

Recommendations

- *The Center for Arts Education should return to the state's General Fund any unspent grant funds remaining from grants whose availability period has expired.*
- *The center should comply with the terms of all grant contracts, including completion of the required services within the grant availability period.*
- *The center should structure its accounting records to separately account for each grant award and identify related expenditures and any remaining cash balance.*

2. The center did not always record board minutes accurately.

The center did not accurately record minutes of the board of directors meetings. For 11 of 21 grants to various art organizations and school districts, the minutes of the January 1999 board meeting incorrectly listed the grant application amounts rather than the grant amounts approved by the full board of directors. The recorded minutes overstated the total amount of grant awards by $21,400. Since the minutes are the official record of decisions and topics discussed at each board meeting, grant recipients could have disputed their award amounts. If disagreements about the approved grant amount arose, the board minutes would not substantiate the correct amount.

Recommendation

- *The center should ensure that the minutes of each board meeting accurately reflect board decisions and actions.*

3. The center did not adequately safeguard receipts.

The center did not promptly record checks received on the check log and did not restrictively endorse the checks until they prepared the bank deposit. Our two spot checks of cash on hand found 15 checks totaling nearly $1,700 not recorded on the check log or restrictively endorsed. The check log is the center's first record of the receipt and should provide a link to the bank deposit. Restrictive endorsement of the checks limits their negotiability and deters theft.

Recommendation

- *The center should promptly record all checks on the check log and restrictively endorse the checks when received.*

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Chapter 3. Operating Expenditures

Chapter Conclusions

The Perpich Center for Arts Education generally recorded its operating expenditures properly in the accounting records in compliance with applicable legal provisions and management's authorization. However, the center lacked control over its fixed assets and did not maintain documentation supporting expenditures charged to the imprest cash accounts. Except as noted, for the items tested, the institution complied with the significant finance-related legal provisions concerning operating expenditures. The center did not complete annual employee performance appraisals or update position descriptions. The executive director did not appropriately update his economic interest statement. The center improperly paid per diem to two board members.

The center's operating expenditures included payroll and travel, purchased services, supplies, equipment, and other operating costs. Table 3-1 summarizes the center's operating expenditures for the three fiscal years ended June 30, 2000.

Table 3-1
Operating Expenditures
For the Three Fiscal Years Ended June 30, 2000

	Fiscal Year 1998	Fiscal Year 1999	Fiscal Year 2000
Payroll and Employee Business Expenses	$3,615,879	$3,888,620	$4,464,357
Purchased Services	786,508	1,017,422	1,169,667
Supplies	205,779	387,678	298,812
Equipment (Fixed Assets)	117,243	378,379	259,833
Other Operating Costs	505,905	699,707	637,233
Total	$5,231,314	$6,371,806	$6,829,902

Source: Minnesota State Accounting and Procurement System.

Payroll and Employee Business Expenses

The center's largest operating cost was payroll, including reimbursement of employee business expenses such as meals and mileage. The center paid its approximately 100 staff through the state's payroll system. Staff submitted their timesheets at the end of each payroll period. The center also used leave request forms to document approval of vacation, sick, or other leave. The center maintained a separation between the personnel and payroll functions.

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Purchased Services and Supplies

The Perpich Center for Arts Education purchased goods and services totaling $3,855,866 during fiscal years 1998 through 2000. These expenditures included space rental, maintenance, repairs, printing, professional/technical services, supplies, and other costs.

To purchase goods or services, departments submitted an authorized purchase requisition to the purchasing department. The purchasing department reviewed the requisition, verified and encumbered the funds, and prepared a purchase order. The accounts payable clerk verified the receipt of the goods or services, matched the invoice to the purchase requisition and purchase order, and made the payment. The center processed these payments on the state's accounting system.

Equipment/Fixed Assets

The Perpich Center for Arts Education purchased equipment totaling $755,455 during fiscal years 1998 through 2000. The process to purchase equipment was similar to the purchase of goods and services.

The center classified machinery, vehicles, instruments, furniture, and other articles that met all of the following criteria as fixed assets:

- unit cost of $2,000;
- useful life of more than one year; and
- retained its identity for inventory purposes.

The center maintained a fixed asset inventory listing. As of May 2000, the center's recorded fixed assets totaled $1,111,381.

Audit Objectives and Methodology

Our audit scope for operating expenditures focused on the following objectives:

- Did the Perpich Center for Arts Education accurately report operating expenditures in the accounting records?

- For the items tested, did the Perpich Center for Arts Education comply, in all material respects, with the significant finance-related legal provisions concerning operating expenditures?

To meet these objectives, we interviewed center staff to gain an understanding of the controls in place over operating expenditure transactions. We reviewed the center's policies and procedures for operating expenditures. We reviewed a sample of expenditure transactions in each area to determine if the center properly authorized, processed, and recorded them. We also reviewed expenditures to determine if the center complied with material finance-related legal provisions. Finally, we reviewed the center's process to record, track, and safeguard its fixed assets.

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Conclusions

The Perpich Center for Arts Education generally recorded its operating expenditures properly in the accounting records. However, Finding 5 explains that the center lacked control over its fixed assets and, as stated in Finding 8, the center did not maintain documentation supporting expenditures charged to the imprest cash accounts. Except as noted, for the items tested, the institution complied with the significant finance-related legal provisions concerning operating expenditures. Finding 4 discusses the lack of timely annual employee performance appraisals or updated position descriptions. As explained in Finding 6, the executive director did not appropriately update his economic interest statement. Finding 7 discusses improper per diem payments to some board members.

4. Many of the center's staff did not have timely performance appraisals or currently updated position descriptions.

As of April 2001, 76 percent of the center's employees had not had performance appraisals within the past year. Although the Department of Finance's internal auditors alerted the center to this weakness in their September 1999 report, the center made little progress toward resolving this concern.

Minnesota statutes require annual performance appraisals for executive branch, civil service employees. Annual performance appraisals ensure that employees met the standards of performance for their job duties and provide an opportunity for feed back to improve work performance. The appraisal can establish a clear understanding between supervisor and employee of the employee's job duties, responsibilities, accountabilities, and authorities and provide managers with a basis for various personnel decisions, such as salary increases, promotions, and discipline.

In addition, the center had not timely updated 75 percent of the employees' position descriptions. The Department of Employee Relations requires that state agencies update position descriptions at least every three years.

Recommendations

- *The center should complete the employee performance appraisals on an annual basis.*
- *The center should update position descriptions every three years.*

5. The center lacked control over its fixed assets.

The center does not have procedures to control its fixed assets. In recent years, the Department of Administration delegated fixed asset control to agencies. Although the center maintained a fixed asset list and performed an inventory of its fixed assets occasionally, it lacked a formal policy to safeguard its fixed asset investment. The center needs to have strong fixed asset controls because many of its fixed assets are susceptible to theft, and the center's facility has public access. Without an adequate system of accounting for fixed assets, the center may not detect theft or misuse of its fixed assets.

A formal policy should:

- State the center's responsibility for safeguarding and monitoring fixed assets.
- Define the type of assets to include as fixed assets.
- Explain how, when, and who should perform an inventory of fixed assets. Ideally, staff with responsibility for the fixed assets should not perform the inventory.
- Establish security measures to safeguard the fixed assets.
- Identify the steps staff should follow if fixed assets become obsolete, or are lost or missing.

In August 1999, the center conducted its most recent fixed asset inventory. The center requested that each department inventory the fixed assets assigned to it and update the center's fixed asset list. The music department, whose fixed asset list totaled nearly $160,000, did not return its asset listing to the business office.

The center has also not adequately addressed the safeguarding of its assets. Within the past year, the center lost approximately $20,000 of fixed assets due to theft. While the center identified some security weaknesses that may have contributed to the thefts, such as poor accountability for as many as 40 master keys, it did not take steps to tighten security. In addition, the center did not inform the Office of the Legislative Auditor of these thefts. Minn. Stat. Section 609.456, Subd. 2 requires agencies to promptly report in writing to the Office of the Legislative Auditor any evidence of theft or unlawful use of state funds or property.

Recommendation

- *The center should develop comprehensive fixed asset policies and procedures to ensure that it adequately safeguards and accounts for its investment in fixed assets.*

6. The executive director did not appropriately update his economic interest statement.

The executive director did not disclose on his economic interest statement the outside compensation he received for speaking engagements. In his most recent statement, filed with the Campaign Finance and Public Disclosure Board in March 1999, the executive director stated that his sole source of compensation was from his position with the center. He did not disclose the speaker fees he received from art organizations for outside speaking engagements on his own time.

Due to his extensive background in arts education and active participation at the national level in the formation of arts education principles, art organizations occasionally ask Dr. O'Fallon to speak at conferences. Sometimes the organizations pay for Dr. O'Fallon's travel expenses. Dr. O'Fallon accepts a speaker fee when the speaking engagement is on his own time. To avoid a conflict of interest or the appearance of a conflict, the executive director needs to clearly separate his activities as the center's executive director and his outside business activities.

As a public official, statutes require that the executive director disclose all sources of income. Statutes require that public officials file a supplementary statement of economic interest on April 15 of each year if the information on the most recently filed statement changed. The supplementary statement, if required, must include the amount of each honorarium more than $50 received since the previous statement and the name and address of the source of the honorarium. A person who willfully fails to report a material change or correction is guilty of a gross misdemeanor.

Recommendation

- *The executive director should submit a revised economic interest statement to the Campaign Finance and Public Disclosure Board.*

7. The center inappropriately paid per diem compensation to two board members.

The center inappropriately paid $55 per day for board activities to two board members who were full-time employees of the University of Minnesota. Minnesota statutory provisions in effect during the audit period stated that full-time employees of the state or its political subdivisions, including the University of Minnesota, may not receive the daily compensation. The Attorney General's Office sent a memo to state agencies about this statute. The center contacted the board members and requested repayment. One board member repaid $385 to the center for the inappropriate per diem payments; the other had not repaid the $825 overpayment as of April 2001.

Recommendations

- *The center should collect reimbursement from the remaining board member who improperly received per diem payments.*

- *The center should ensure that future board members are aware of per diem restrictions to full time employees of political subdivisions.*

8. PRIOR RECOMMENDATION NOT RESOLVED: The accounting department reimbursed imprest cash accounts without requiring supporting documentation.

The accounting staff did not review supporting documentation before it reimbursed the center's imprest cash checking accounts. The center used the accounts, funded through the $50 per student activity fee, to pay for various student activities, such as bus transportation to events. For fiscal years 1998 through 2000, the center processed 27 reimbursement requests totaling

$20,385. Although the student services staff retained documentation for the disbursements, they did not submit this documentation to the accounting department when they requested reimbursement. (In the seven tested reimbursement requests, the student services staff had documentation for all but $83.) The accounting staff should not reimburse the imprest cash accounts without reviewing the documentation to ensure that the disbursements were for appropriate uses of the funds.

Recommendation

- *The accounting staff should not reimburse the imprest cash account without reviewing supporting documentation for the disbursements.*

Status of Prior Audit Issues
As of April 20, 2000

Most Recent Audits

Legislative Audit Report 96-37, issued in September 1996, covered the three fiscal years ending June 30, 1995. The audit scope included state grant receipts, student fees, payroll, contracts, other administrative expenditures, and grants to local organizations. The report contained seven findings. The Center for Arts Education implemented six recommendations. Prior Finding 7, regarding controls over imprest cash, is repeated in this report.

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.

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PERPICH CENTER
for
ARTS EDUCATION
Arts High School • Professional Development Institute

August 7, 2001

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

Dear Mr. Nobles:

Thank you for the opportunity to discuss your audit findings with the individuals in your office responsible for the audit of the Perpich Center for Arts Education. Your staff was extremely helpful and responsive to the Center's needs and questions during their time on-site. We very much appreciate their feedback on strategies to enhance the accountability of our fiscal systems and instructional programs. We will continue to work toward improvements in our processes. Following is the Center's response to the recently completed audit for the three years ending June 30, 2000.

1. Finding:
The Center for Arts Education did not properly account for state grant funds.

Recommendations:
The Center for Arts Education should return to the state's General Fund any unspent grant funds remaining from grants whose availability period has expired.

The Center should comply with the terms of all grant contracts, including completion of the required services within the grant availability period.

The Center should structure its accounting records to separately account for each grant award and identify related expenditures and any remaining cash balance.

Response:
As of June 30, 2001 all grants from CFL to the Center have expired. The un-obligated balance in these grants is $94,651. In September the Department of Finance will process the fiscal year 2001 closing. At that time, this balance will cancel back to the general

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fund. In May, the Center returned $52,729 of interest that these grants earned during this three-year period.

The Center has developed a 10-step grant award process (attached) which outlines the procedures to follow when a grant is applied for and received. New general fund appropriations with unique codes have been established to track individual CFL grants in the Center's general fund. CFL grants will no longer be accounted for in the Center's revolving fund. The PDI Grant Coordinator will revise her subsidiary accounting system to track funds by grants rather than fiscal year and reconcile to MAPS monthly with the assistant of the Administration Director. If needed, the Center will request and amendment to the grant for an extension period,

Note: During an Internal Audit by the Department of Finance in October 1998, the Center was instructed to place these grants in a special revenue fund, which has carry forward authority. During this past Legislative Audit we were instructed that this was not correct and that the money should be in a general fund account. The Center was following the instructions given by the Department of Finance.

Person Responsible: Bob Raiolo, Administration Director
Peggy Piepho, PDI Grant Coordinator
Implementation Date: Revised Accounting Structure – Implemented
Return of unspent grant funds – September 2001

2. Finding:
The Center did not always record board minutes accurately.

Recommendations:
The Center should ensure that the minutes of each board meeting accurately reflect board decisions and actions.

Response:
Past practice has been that the person taking the board minutes would type them up and distribute to board members and Center directors. In the future, the presenters of the information to assure accuracy in the data recorded will review a draft of the board minutes before final distribution. Also, the minutes from sub-committee that approves the grants will be attached to the full board minutes. The Center will append the board minutes in question with the grant review team's worksheet on the request/awarded grant amounts. The Center agrees that great care should be taken to reflect accurate information in board minutes.

Person Responsible: Kathy Regalado, Office & Admin Specialist Principal
Implementation Date: August 2001

3. Finding:
The Center did not adequately safeguard receipts.

Recommendations:
The Center should promptly record all checks on the check log and restrictively endorse the check when received.

Response:
By statute, a deposit is required when daily receipts total more than $250. There are times when the Center's daily receipts are less than this. On these occasions the Center keeps these checks in a locked location until such time when receipts are greater than the required deposit amount. At that time, all checks are endorsed, a deposit prepared and recorded in the state's accounting system and funds are brought to the state depository. In the future, all check will be endorsed when they are received to ensure proper accounting and tracking by date of receipt. This will also restrict any unauthorized persons from attempting to cash any check made payable to the Center.

Person Responsible: Suzanne Bursh, Customer Services Specialist
Implementation Date: Implemented

4. Finding:
Many of the Center's staff did not have timely performances appraisals or currently updated positions descriptions.

Recommendations:
The Center should complete the employee performance appraisals on an annual basis.

The Center should update position descriptions every three years.

Response:
All supervisors will be accountable for completing performance evaluations on schedule for all of their employees. Karen Sandt has developed an annual review schedule based on anniversary dates. A policy has been written to assure that performance evaluations are completed in a timely manner. The Center will arrange training for all supervisors in performance appraisal and performance management. We will investigate new approaches to assessing our individual and collective performance, to make our work as effective as possible.

In order to assure that position descriptions are up to date, Karen Sandt will notify supervisors and directors of position descriptions in need of updating. Supervisors will have until October 1, 2001 to submit revised position descriptions to their supervisors for final approval. The are some supervisors with more than 20 employees to review. In these cases we ask that they try and process two per month. The position descriptions will then be reviewed and signed by the employee and filed by Karen.

Person Responsible: Karen Sandt, Personnel Officer
Implementation Date: On-Going

5. Finding:

The Center lacked control over its fixed assets.

Recommendations:
The Center should develop comprehensive fixed asset policies and procedures to ensure that it adequately safeguards and accounts for its investment in fixed assets.

Response:
The Center is currently developing policies and procedures to be used in conducting a physical inventory. After the policies and procedures are in place, the physical inventory will begin. The Buyer will conduct this with assistance from area directors to locate each asset in the Center's fixed asset inventory system (FAIS) and verify each asset personally.

With assistance from the Department of Corrections the Center is in the process of a security audit. The audit consists of ways to improve security such as cameras, re-keying and tighter policies and procedures regarding access to the facility after hours.

The Center has installed a card access system and camera to the administration building. The card system will allow management to program who has access to the building and when. This fall the entire administration building will be re-keyed with a high security key such as Medeco or ASSA that the manufacturer is authorized to copy only with written approval from the Center administration director. We will have a limited amount of master keys issues (less than 5) and employees will need to check out a master, if needed, and return by the end of the day.

Person Responsible: Marilyn Wahlstrom, Buyer
Bob Raiolo, Administration Director
Implementation Date: fall 2001

6. Finding:
The executive director did not appropriately update his economic interest statement.

Recommendations:
The executive director should submit a revised economic interest statement to the Campaign Finance and Public Disclosure Board.

Response:
The executive director has consulted with staff of the campaign finance board to ensure he understood terms and requirements of reporting. By September 30, 2001 an updated economic interest statement will be filed with the Campaign Finance and Public Disclosure Board.

Person Responsible: David O'Fallon, Executive Director
Implementation Date: September 2001

7. Finding:
The Center inappropriately paid per diem compensation to two board members.

Recommendation:
The Center should collect reimbursement from the remaining board member who improperly received per diem payments.

The Center should ensure that future board members are aware of per diem restrictions to full time employees of political subdivisions.

Response:
The Center will review the per diem law (M.S. 15.0575 Subd. 3 "…members who are full-time state employees or full-time employees of the political subdivisions of the state may not receive the daily payment…") with new board members to assure that non-eligible members do not receive a per diem. The Center has sent a letter to the former board member requesting reimbursement. If this does not produce the refund the Center will solicit assistance from the Revenue Recapture or the MN Collection Enterprise agencies.

Person Responsible: Kathy Regalado, Office & Admin Specialist Principal
Implementation Date: August 2001

8. Finding:
The accounting department reimbursed imprest cash accounts without requiring supporting documentation.

Recommendation:
The accounting staff should not reimburse the imprest cash account without reviewing supporting documentation for the disbursements.

Response:
The Center has been extremely meticulous about having receipts attached to all imprest cash reimbursements. During the scope of this audit the Center has processed more than $17,000 in imprest cash reimbursements. The missing documentation amounts to less than ½%. The administration director will verify that all receipts are present before approving reimbursements.

Person Responsible: Bob Raiolo, Administration Director
Implementation Date: Implemented

Sincerely,

/s/ David O'Fallon

David O'Fallon, Ph.D.
Executive Director, Perpich Center for Arts Education

10-Step Grant Award Process

1	Notification to Administration Director of Grant Application / Development Process	David, Bob, John, Mike H., Pam, Mary, Shelly, Mark, Karen C., Faculty
2	Written Notification of Grant Award From Grantor	Kathleen, Peggy, Emily, Jody, Janice, Marla
3	Executive Director or Administration Director signs grant and Returns to Appropriate Admin. Asst.	David, Bob
4	Appropriate Admin. Asst. makes two copies and distributes to Administration Director and Admin Asst. and mails original back to grantor	Kathleen, Peggy, Emily, Jody, Janice, Marla
5	Appropriate Staff Review Grant Timeline & Purpose and assigns 10% Overhead Expenses	David, Bob, John, Mike H., Pam, Mary, Shelly, Mark, Karen C., Faculty Kathleen, Peggy, Emily, Jody, Janice, Marla
6	Administration Director sets up accounting data in MAPS and assigns unique codes and reviews with Admin. Asst.	Bob, Kathleen, Peggy, Emily, Jody, Janice, Marla
7	Expenditures tracked on excel spreadsheet and in MAPS with monthly spot check comparisons / reconcilation	Bob, Kathleen, Peggy, Emily, Jody, Janice, Marla
8	Appropriate Director Prepares Final Expenditures Report. Executive and Administration Directors approve before submission to grantor.	David, Bob, John, Mike H., Pam, Mary, Shelly, Mark, Karen C., Faculty
9	Admin. Asst. Submits Final Report to Grantor	Kathleen, Peggy, Emily, Jody, Janice, Marla
10	Grant Closed	