

Financial-Related Audit

**Board of Government Innovation
and Cooperation**
July 1, 1997, through June 30, 2002



Financial Audit Division

The Office of the Legislative Auditor (OLA) is a professional, nonpartisan office in the legislative branch of Minnesota State government. Its principal responsibility is to audit and evaluate the agencies and programs of state government (the State Auditor audits local governments).

OLA's Financial Audit Division annually audits the state's financial statements and, on a rotating schedule, audits agencies in the executive and judicial branches of state government, three metropolitan agencies, and several "semi-state" organizations. The division also investigates allegations that state resources have been used inappropriately.

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

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

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

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

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

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

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



Senator Ann H. Rest, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Pamela Wheelock, Commissioner
Department of Finance

We have audited the Board of Government Innovation and Cooperation for the period July 1, 1997, through June 30, 2002. Our audit scope included grants and administrative expenditures. The audit objectives and conclusions are highlighted in the individual chapters of this report.

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 require that we design the audit to provide reasonable assurance that the Board of Government Innovation and Cooperation complied with provisions of laws, regulations, contracts, and grants that are significant to the audit. The management of the Board of Government Innovation and Cooperation was responsible for establishing and maintaining the internal control structure and complying with applicable laws, regulations, contracts, and grants.

This report is intended for the information of the Legislative Audit Commission and the management and members of the Board of Government Innovation and Cooperation. This restriction is not intended to limit the distribution of this report, which was released as a public document on August 22, 2002.

/s/ James R. Nobles

James R. Nobles
Legislative Auditor

/s/ Claudia J. Gudvangen

Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

End of Fieldwork: July 26, 2002

Report Signed On: August 19, 2002

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Audit Participation

The following members of the Office of the Legislative Auditor prepared this report:

Claudia Gudvangen, CPA	Deputy Legislative Auditor
Brad White, CPA, CISA	Audit Manager
Ellen Sibley, CPA	Auditor-in-Charge

Exit Conference

We discussed the preliminary results of the audit with the Board of Government Innovation and Cooperation's executive director at an exit conference on May 13, 2002. (We performed additional work after that date to review subsequent financial activity through June 30, 2002.)

Gary Pagel	Executive Director, Board of Government Innovation and Cooperation
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Board of Government Innovation and Cooperation

Report Summary

Overall Conclusion

The Board of Government Innovation and Cooperation properly authorized and accurately recorded grants and administrative expenditures in the state's accounting and payroll systems. For the items tested, the board complied with applicable finance-related legal provisions and policies governing its grants and administrative costs.

Due to state budget reductions, the Legislature repealed the board's statutory authority in the 2002 legislative session and eliminated the board's appropriation funding for fiscal year 2003 beginning July 1, 2002. As a result, we extended our audit work to include the close out of operations through June 30, 2002. The board was dissolved pursuant to Minn. Stat. Section 16B.38. The Commissioner of Administration entered into an agreement with the Department of Finance for the administration and closeout of the existing board grants. As of July 1, 2002, 20 grants totaling \$114,275 were encumbered but not yet expended.

Agency Background

The Legislature created the Board of Government Innovation and Cooperation in 1993. The board's mission was to facilitate improved quality and delivery of services by local units of government. This was accomplished by providing grant incentives and removing state imposed barriers in providing effective service delivery. The board was composed of 11 members, including the State Auditor, the commissioners of Finance and Administration, two administrative law judges, and six legislators. Mr. Gary Pagel was the board's executive director through June 30, 2002.

Financial-Related Audit Reports address internal control weaknesses and noncompliance issues found during our audits of state departments and agencies. The scope of our audit work at the Board of Government Innovation and Cooperation included grant and administrative expenditures for the period from July 1, 1997, through June 30, 2002.

Board of Government Innovation and Cooperation

Chapter 1. Introduction

The mission of the Board of Government Innovation and Cooperation was to facilitate improved quality and efficiency in the delivery of services by local governments. The board was created by the 1993 Legislature and was governed by Minn. Stat. Sec. 465.795 through 465.88. The board consisted of 11 members, including the State Auditor, the commissioners of Finance and Administration, two administrative law judges, and six legislators. The board had an executive director, Mr. Gary Pagel, and one other full-time employee.

The board provided grant incentives for innovation and cooperation and encouraged local officials to implement more effective service delivery models. It was authorized to issue waivers and exemptions from state-imposed barriers to more effective service delivery. It could also facilitate mergers of two or more local units of government. In addition, the board sought other opportunities to promote more effective and efficient public services.

Laws of Minnesota (2002), Chapter 220, Article 10, Section 8 repealed the board's statutory authority and eliminated the board's appropriation of \$275,000 for fiscal year 2002 and \$518,000 for fiscal year 2003. The board's competitive grant and consolidation aid programs were terminated. However, Minn. Stat. Sections 465.81 through 465.82 were not repealed. These sections establish procedures used by counties, cities, or towns to develop a plan to combine services or merge with the consent of the voters. While the authority continues, there will be no state review of the consolidation plans.

Minn. Stat. Section 16B.38 provides that the Commissioner of Administration is responsible for state agency dissolution. The commissioner entered into an interagency agreement with the Department of Finance to transfer the authority for the administration of existing board grants. As of June 30, 2002, there were 20 grant encumbrances totaling \$114,275 that were not yet expended. The Department of Administration was in the process of transferring remaining funds to the Department of Finance.

General Fund appropriations financed the board's main operations. Table 1-1 shows the board's financial activity for the audit period.

Board of Government Innovation and Cooperation

Table 1-1
Sources and Uses of Funds
For the Five Fiscal Years ended June 30, 2002

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Resources Available for Expenditures:					
State Appropriations	\$1,312,000	\$1,009,000	\$1,014,000	\$1,018,000	\$512,000
Less: Cancellations	0	(393,798)	0	(167,323)	(275,000)
Gifts and Donations ^(Note 1)	0	0	9,335	20,000	20,000
Investment Earnings	0	0	0	1,094	923
Transfers Out ^(Note 2)	0	0	0	0	(98,860)
Balance Forward In	0	40,677	0	84,779	21,783
Balance Forward Out	<u>(40,677)</u>	<u>0</u>	<u>(84,779)</u>	<u>(21,783)</u>	<u>0</u>
Total Resources Available	<u>\$1,271,323</u>	<u>\$ 655,879</u>	<u>\$ 938,556</u>	<u>\$934,767</u>	<u>\$180,846</u>
Expenditures:					
Grants	\$1,138,250	\$ 500,759	\$ 740,831	\$ 746,175	\$ 20,000
Payroll and Administrative Costs	<u>133,073</u>	<u>155,120</u>	<u>146,825</u>	<u>125,217</u>	<u>124,424</u>
Total Expenditures	<u>\$1,271,323</u>	<u>\$ 655,879</u>	<u>\$ 887,656</u>	<u>\$ 871,392</u>	<u>\$144,424</u>
Unexpended Appropriations as of June 30, 2002 ^(Note 3)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 50,900</u>	<u>\$ 63,375</u>	<u>\$ 36,422</u>

Note 1: The board received gifts from the Ford Foundation and the Pioneer Institute in fiscal years 2000 and 2001 and was awarded a \$20,000 grant from the Institute for Government Innovation in fiscal year 2002.

Note 2: The board transferred \$98,960 to the Department of Finance for web site administration and grant monitoring.

Note 3: As of June 30, 2002, the board had unexpended grant encumbrance obligations totaling \$114,275 from fiscal years 2000 and 2001 and unexpended administrative balances of \$36,422 from fiscal year 2002. The Department of Administration was in the process of transferring balances to the Department of Finance to closeout remaining board obligations.

Source: Minnesota Accounting and Procurement System (MAPS) for fiscal years 1998 to 2002.

Board of Government Innovation and Cooperation

Chapter 2. Grant Expenditures

Chapter Conclusions

The Board of Government Innovation and Cooperation properly authorized and accurately recorded grant expenditures in the accounting system. In addition, for the items tested, the board complied with material finance-related legal provisions and board policies governing statutory grant awards, limits, and payments.

The Board of Government Innovation and Cooperation provided two types of grants to local units of government: Cooperation and Combination Grants and Competitive Grants. Table 2-1 provides a breakdown of grants by fiscal year and type during the audit period.

Table 2-1
Grant Expenditures by Type
For the Five Years Ended June 30, 2002

Grant Types	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Cooperation and Combination Grants	\$ 520,965	\$437,805	\$210,840	\$218,000	\$20,000
Competitive Grants	<u>617,285</u>	<u>62,954</u>	<u>529,991</u>	<u>528,175</u>	<u>0</u>
Total	<u>\$1,138,250</u>	<u>\$500,759</u>	<u>\$740,831</u>	<u>\$746,175</u>	<u>\$20,000</u>

Note: As of June 30, 2002, the board had unexpended grant obligations of \$50,900 and \$63,275 for fiscal years 2000 and 2001, respectively. Also, the above balances do not reflect \$178,429 of grant refunds that were deposited as nondedicated receipts and not available for board spending.

Source: Minnesota Accounting and Procurement System (MAPS) for fiscal years 1998 to 2002.

Each biennium, once the board received its appropriation, it notified local government units that grants were available. These entities had four months to complete and submit preliminary applications. The board reviewed the applications and used a point system specified in Minn. Stat. Section 465.802 to prioritize and award grant projects. It awarded the grants and executed grant contracts. Once grant contracts were executed, payments were disbursed and recorded on the state's accounting system.

The board provided financial assistance to local units of government for a cooperative consolidation of two or more local units of government. The plans for consolidation had to be developed and approved by the governing bodies of the participating local units of government. Cooperation and combination grants were intended to help overcome merger fiscal barriers. They were also available for planning costs, of up to \$10,000, for local governments that expressed interest in merging.

Board of Government Innovation and Cooperation

The board provided competitive grants to local governments interest in developing pilot projects that demonstrate intergovernmental cooperation and innovation in the delivery of public services. Four types of competitive grants were provided:

- Service Budget Management Model Grants (up to \$50,000)
- Cooperation Planning Grants (up to \$50,000)
- Service Sharing Grants (up to \$100,000)
- Environmental Special Purpose Grants (up to \$100,000)

At the time it was disbanded, the board was currently monitoring 20 pilot projects that had received competitive grants. Grant contracts required recipients to file quarterly financial status reports regarding disposition of awarded funds. The board had encountered difficulty with certain grant recipients that did not file required reports. As a result, the board withheld ten percent of the competitive grant award until all required financial reporting requirements were met.

The 2000 Legislature expanded the board's ability to assist local governments by including a special pilot program to examine restructuring the organization and operation of special purpose environmental districts through the development of alternative natural resource management models. The board was authorized to undertake this initiative, in cooperation with the Board of Water and Soil Resources, which funded two pilot projects totaling \$114,977.

Audit Objectives and Methodology

We focused our review of the Board of Government Innovation and Cooperation grant expenditures on the following objectives:

- Did the board properly authorize and encumber grant obligations and accurately record grant expenditures in the accounting system?
- Did the board award and disburse grants in compliance with applicable finance-related legal provisions and board policies?

To answer these questions, we interviewed the board's executive director to gain an understanding of the process and controls over awarding and disbursement of grants. We analyzed and reviewed grant transactions recorded on the accounting system. We also tested grant disbursements to ensure proper authorization and recording and compliance with applicable statutory provisions and agreements.

Conclusions

The Board of Government Innovation and Cooperation properly authorized and accurately recorded grant expenditures in the accounting system. In addition, for the items tested, the board complied with material finance-related legal provisions and board policies governing statutory grant awards, limits, and payments.

Board of Government Innovation and Cooperation

Chapter 3. Administrative Expenditures

Chapter Conclusions

The board properly authorized and accurately recorded administrative expenditures in the payroll and accounting systems. For the items tested, the board compensated employees in accordance with bargaining agreements and compensation plans and expended funds in accordance with applicable finance-related legal provisions.

Payroll

The Board of Government Innovation and Cooperation had two full-time employees, the executive director and a management analyst. The board's payroll was processed through the State Employee Management (SEMA4) human resource and payroll system by the Department of Administration.

Other Administrative Expenditures

The board's other administrative expenditures included rent for its office space, professional/technical services, communications/printing, travel, equipment, and supplies. The Department of Administration processed the board's administrative expenditure transactions in the state's accounting system (MAPS).

Table 3-1
Administrative Expenditures by Type
For the Five Fiscal Years ended June 30, 2002

Expenditure Type	1998	1999	2000	2001	2002
Payroll	\$122,563	\$129,199	\$132,713	\$ 89,812	\$ 97,469
Rent	4,377	4,381	4,934	4,523	5,441
Professional/Technical Services ^(Note 1)	0	0	2,359	24,154	7,435
Communications/Printing	1,518	9,950	3,630	4,642	2,172
Other	4,615	11,590	3,189	2,086	11,907
Total Expenditures	\$133,073	\$155,120	\$146,825	\$125,217	\$124,424

Note 1: The board acquired professional/technical services from the Department of Administration's Management Analysis Division during fiscal year 2001 to assist with grant activities while its executive director was on a leave of absence.

Source: Minnesota Accounting and Procurement System (MAPS) for fiscal years 1998 to 2002.

Board of Government Innovation and Cooperation

Audit Objectives and Methodology

We focused our review of the board's administrative expenditures on the following objectives:

- Did the board properly authorize and accurately record administrative expenditures in the payroll and accounting systems?
- Did the board compensate employees in accordance with bargaining unit contracts and compensation plans, and expend funds in accordance with applicable legal provisions?

To answer these questions, we interviewed the board's executive director and the Department of Administration's Human Service Division personnel to gain an understanding of the payroll process. We reviewed the board's human resource files and confirmed pay rates to applicable bargaining unit agreements. We also performed tests of SEMA4 payroll transactions to determine if the board properly authorized, processed, and recorded administrative expenditures and complied with the applicable compensation provisions of the bargaining unit agreements and compensation plans.

Conclusions

The board properly authorized and accurately recorded administrative expenditures in the payroll and accounting systems. For the items tested, the board compensated employees in accordance with bargaining agreements and compensation plans and made expenditures in accordance with applicable finance-related legal provisions.

Board of Government Innovation and Cooperation

Status of Prior Audit Issues As of July 26, 2002

Most Recent Audit

Legislative Audit Report 98-42, issued in July 1998, covered the two fiscal years ended June 30, 1997. The scope of this audit included grant and payroll expenditures. There were no findings cited 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 the metropolitan agencies, or the State Agricultural Society, the state constitutional officers, or the judicial branch.