

Financial-Related Audit

Council on Black Minnesotans
July 1, 1998, through December 31, 2001



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

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OFFICE OF THE LEGISLATIVE AUDITOR
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Council on Black Minnesotans

Members of the Council on Black Minnesotans

Mr. Lester Collins, Executive Director
Council on Black Minnesotans

We have audited the Council on Black Minnesotans for the period July 1, 1998, through December 31, 2001. Our audit scope included: employee payroll and per diems, space rental, grant revenues and expenditures, contractual services, other operating costs, and selected 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 Council on Black Minnesotans complied with provisions of laws, regulations, contracts, and grants that are significant to the audit. The management of the Council on Black Minnesotans is responsible for establishing and maintaining the internal control structure and complying with applicable laws, regulations, contracts, and grants.

Pursuant to Minn. Stat. Section 3.975, we have referred this report to the offices of the Attorney General and Ramsey County Attorney. The Attorney General has the responsibility to ensure the recovery of state funds and, in fulfilling that role, may negotiate the propriety of individual claims. The county attorney shall cause criminal proceedings to be instituted as the evidence may warrant.

This report is intended for the information of the Legislative Audit Commission and the management and board members of the Council on Black Minnesotans. This restriction is not intended to limit the distribution of this report, which was released as a public document on September 12, 2002.

/s/ James R. Nobles

James R. Nobles
Legislative Auditor

/s/ Claudia J. Gudvangen

Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

End of Fieldwork: May 23, 2002,

Report Signed On: September 9, 2002

Council on Black Minnesotans

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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
David Polisenno, CPA, CISA, CFE	Audit Manager
Marla Conroy, CPA, CISA	Director of Investigations
Sonya Johnson, CPA	Auditor-in-Charge
Patrick Phillips, CPA	Auditor
Kristen Peterson	Auditor

Exit Conference

We discussed the results of the audit with the following staff of the Council on Black Minnesotans and the Department of Administration at an exit conference on August 20, 2002:

Council on Black Minnesotans:

Lester Collins	Executive Director
Roger Banks	Policy Analyst
Rebecca Johnson	Office and Administrative Specialist Senior

Department of Administration:

Larry Freund	Director, Financial Management and Reporting
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Report Summary

Overall Conclusions:

The Council on Black Minnesotans did not appropriately administer its financial activities, properly safeguard public funds and assets, comply with material finance-related legal provisions, or properly record its financial activities in its accounting systems. We noted the following internal control and legal compliance areas where the council needs improvement.

Key Findings:

- The council did not record certain transactions properly in the accounting system (Finding 1, page 6) or make payments in a timely manner (Finding 2, page 7).
- The council did not formally delegate authority for certain council staff to sign documents in the executive director's absence (Finding 3, page 8). Also, a non-council employee incurred printing costs for the council (Finding 4, page 8).
- One employee may have received overpayments totaling \$5,500 by submitting fraudulent claims for hours not worked. After the employee's supervisor signed the original timesheet, the employee altered the hours on the timesheet (Finding 5, page 11).
- The council did not review the payroll register report to ensure that payroll transactions were accurately entered on the State Employment Management System (SEMA4) (Finding 6, page 12).
- The council inappropriately paid per diems totaling \$1,430 to four board members and did not diligently pursue collection of the overpayments (Finding 7, page 12).
- The council did not administer its grants and contracts in compliance with applicable legal requirements or grant agreements (Finding 8, page 17) and (Finding 9, page 22).
- The council did not comply with the state's special expense policies and procedures (Finding 11, page 27).

Financial-Related Audits address internal control weaknesses and noncompliance issues found during our audits of state departments and agencies. The scope of our work at the Council on Black Minnesotans included employee payroll and per diems, space rental, grants revenues and expenditures, contractual services, other operating costs, and selected administrative expenditures for the period July 1, 1998, through December 31, 2001. The Council on Black Minnesotans and the Department of Administration's response to our recommendations are included in the report.

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Council on Black Minnesotans

Chapter 1. Introduction

The Council on Black Minnesotans was established by the Legislature in 1980 and operates under the authority of Minn. Stat. Section 3.9225. The council's mission is to provide all individuals of African descent with equal access to state services and programs and to relate the needs of these individuals to the Legislature. The council also works with other minority councils on common concerns and advises the Governor, Legislature, and other state agencies on issues that affect black Minnesotans. In addition, the council provides research and referral services. Some of the council's activities included promoting the 2000 U.S. census in order to help prevent the undercounting of black Minnesotans in the African-American and African immigrant communities. The council also sponsored and coordinated the annual Martin Luther King, Jr. holiday celebration.

The council consists of thirteen members appointed by the Governor and four non-voting members from the Minnesota Senate and House of Representatives. The council meets on a monthly basis. The council employed four full-time staff. Lester Collins serves as the executive director of the council.

The council receives state appropriations to fund its operations. Pursuant to statute, the Department of Administration provides administrative services to the council. These services include entering payroll, receipt, and disbursement transactions into the state's accounting and payroll systems. Table 1-1 summarizes the council's financial activities for the three fiscal years ended June 30, 2001.

Table 1-1
Sources and Uses of Funds
Fiscal Years 1999, 2000, and 2001

	<u>1999</u>	<u>2000</u>	<u>2001</u>
Resources Available for Expenditures:			
State Appropriations	\$286,000	\$320,000	\$329,000
Less: Cancellations	<u>(4139)</u>	<u>(0)</u>	<u>(5227)</u>
Net Appropriations	<u>\$281,861</u>	<u>\$320,000</u>	<u>\$323,773</u>
Receipts	69,650	37,201	4,989
Balance Forward In ⁽¹⁾	<u>213,938</u>	<u>16,664</u>	<u>16,522</u>
Total Resources Available	<u>\$565,449</u>	<u>\$373,865</u>	<u>\$345,284</u>
Expenditures:			
Payroll	\$278,419	\$220,916	\$219,599
Rent	21,476	23,578	21,235
Contractual Services	127,691	31,874	2,100
Other Operating Costs	3,039	36,664	30,058
Grants	58,250	0	2,000
Other Administrative Expenditures	59,910	44,311	52,884
Balance Forward Out	<u>16,664</u>	<u>16,522</u>	<u>17,408</u>
Total Expenditures	<u>\$565,449</u>	<u>\$373,865</u>	<u>\$345,284</u>

Note (1): The balance forward in for fiscal year 1999 includes a grant for a pilot program on non-violent child development.

Source: Minnesota Accounting and Procurement System.

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Chapter 2. Financial Management

Chapter Conclusions

The Council on Black Minnesotans did not adequately safeguard public funds and assets. The council did not appropriately administer its financial activities in a reasonable and prudent manner. The council did not accurately record its transactions in the accounting system. Also, the council did not process its transactions in a timely manner. In addition, the council had no formal delegation of authority to allow certain council staff to sign documents in the absence of the executive director. Finally, a non-council employee charged printing costs to the council for items associated with the Martin Luther King Commission. In addition to the issues discussed in this chapter, the remaining chapters of the report identify various audit findings that show consistent financial management weaknesses.

The council works with the Department of Administration to process its transactions on Minnesota's Accounting and Procurement System (MAPS). The council and the department have a formal agreement that outlines each party's responsibilities relating to the processing of payroll, expenditure, and receipt transactions. The council is responsible for preparing its annual budget, initiating purchases, and reviewing and approving payroll, expense reports, and invoices before submitting these documents to the Department of Administration. The department maintains all the original documentation for transactions processed and provides various reports to the council showing financial activity. The council is responsible to review the reports and notify the Department of Administration of any errors.

Audit Objectives and Methodology

The primary objectives of our audit were to answer the following questions:

- Did the council's internal controls provide reasonable assurance that it had adequately safeguarded public funds and assets and properly recorded its financial transactions in the accounting records?
- Did the council account for its funds in a reasonable and prudent manner and in compliance with significant finance-related legal provisions?

To address these objectives, we interviewed employees at both the council and the Department of Administration to gain an understanding of procedures followed by the two departments for the processing of council transactions. We obtained and reviewed the agreement between the council and the Department of Administration to determine the responsibilities and duties of both

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parties. We also performed tests to determine if transactions were appropriately authorized, recorded properly, and paid in a timely manner.

Conclusions

The Council on Black Minnesotans did not adequately safeguard public funds and assets. The council did not administer its financial activities in a reasonable and prudent manner. The council did not accurately record certain transactions in the accounting system, as discussed in Finding 1. Also, the council did not process its transactions in a timely manner, as discussed in Finding 2. In addition, the council had no formal delegation of authority to allow certain council staff to sign documents in the absence of the executive director, as shown in Finding 3. Finally, a non-council employee charged printing costs to the council for items associated with the Martin Luther King Commission, as discussed in Finding 4. In addition to the issues discussed in this chapter, the remaining chapters of the report identify various audit findings that show consistent financial management weaknesses.

1. Certain transactions were not accurately recorded in the state's accounting system (MAPS).

Certain transactions were erroneously coded in MAPS. Our review of council activities indicated the following problems:

- The Department of Administration did not always assign the correct record date to some of the council's expenditure transactions. A sample of 27 transactions showed that 25 sample items for grants and contractual services had incorrect record dates. The council received the invoices, approved them, and sent them to the department for input. The department arbitrarily assigned a record date to the transactions. Record dates identify when the state incurred an obligation and should represent the date that the goods or services were received. This is especially important for determining year-end liabilities. Failure to use the proper record date could result in an understatement of liabilities in the state's financial statements.
- The department coded certain transactions to the wrong object codes. We tested a sample of 60 expenditure transactions and found that 11 sample items were coded to incorrect object codes. We found that in some instances, expenditures should have been coded as grant expenditures instead of contract services. In other instances, items coded to other operating costs should have been coded as grant expenditures. Object codes should accurately reflect the nature of the expenditure.
- Finally, the council received a \$34,000 grant and erroneously recorded it in the Gift Fund. Minnesota Department of Finance and Administration Operating Policy and Procedure 0602-13 restricts agencies from recording grant revenues in the Gift Fund. In addition, unless specified in the grant agreement, these funds should not earn investment income. Because the grant was recorded in the Gift Fund, it received an allocation of earnings from Invested Treasurer's Cash.

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The council is ultimately responsible for the proper recording of its transactions in MAPS. The council needs to work with the Department of Administration to ensure that its transactions are properly recorded.

Recommendations

- *The council should work with the Department of Administration to ensure that all financial activity is accurately reported in the accounting system with the correct record dates and object codes.*
- *The council should record grants in the proper fund. Interest should only be earned on grant funds if stipulated in the grant agreement.*

2. The council did not make timely payments for certain goods and services.

The council did not pay certain expenditures in a timely manner according to Minnesota statute or contract terms. Minn. Stat. Section 16A.124, Subd. 3 requires that vendors must be paid “within 30 days following the receipt of the invoice.” Our testing of payment transactions showed the following number of sample items that were paid late:

- 7 of 10 contractual service payments,
- 4 of 17 grant payments, and
- 17 of 47 other operating cost payments.

The late payments ranged from several days to several months. In one instance, the date of the event was December 13, 1997, but the invoice was not paid until August 7, 1998.

In addition to the late payments, the council did not always make payments in compliance with the terms of its contracts. We found that in 8 out of 27 payments tested, the council did not pay the grantees according to the contract terms. The contract stated that the payment was to be made within ten days of executing the contract, but the council made the payments 21 days after the execution of the contracts.

Recommendation

- *The council should ensure that payments are made in compliance with state statutes or contract terms.*

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3. The council did not formally delegate key financial responsibilities to staff in the executive director's absence.

The council did not implement a formal delegation of authority that would allow specific staff to authorize transactions or approve documents in the executive director's absence. We found instances where the executive director was unavailable to approve payroll or other expenditure transactions. In these situations, a staff member signed the executive director's name to the documents. As a result, there was not appropriate accountability for the transactions. Minn. Stat. Section 15.06, Subd. 6 contains a general grant of authority to delegate duties and powers to subordinates as deemed advisable. The statute requires a written delegation order to be filed with the Secretary of State's Office. Without a formal delegation of authority, council employees could initiate inappropriate or fraudulent transactions and sign the executive director's name.

Recommendation

- *The council should formally delegate authority to staff to approve transactions in the executive director's absence.*

4. A non-council employee incurred printing costs for the council.

While working on a joint Martin Luther King Jr. holiday celebration with the council, a non-council employee charged printing costs to the council. The Governor's Council on the Martin Luther King Jr. Holiday plans and carries out events to honor Martin Luther King Jr. One of the major events is the annual Martin Luther King Jr. holiday celebration in January. During our review of the council's printing expenditures, we noted that a former council employee charged printing costs of \$456 for the Martin Luther King Commission to the council's budget. This former employee currently serves as the co-coordinator for the Martin Luther King Commission.

The council's mission includes coordinating the Martin Luther King Jr. holiday celebration, so it seems reasonable for the council to incur such costs for the celebration. However, only authorized council employees should incur costs for the council.

Recommendation

- *Only authorized council staff should incur obligations on behalf of the council.*

Chapter 3. Payroll and Per Diems

Chapter Conclusions

The Council on Black Minnesotans' internal controls did not provide reasonable assurance that payroll expenditures were accurately reported in the accounting records and in compliance with applicable legal provisions and management's authorization. The internal control weaknesses contributed to one employee receiving approximately \$5,500 over a three-year period for hours claimed on her timesheet that could not be substantiated. The council did not have controls in place to either prevent or detect the employee from falsifying her payroll timesheets and leave records and receiving unauthorized pay. The council did not review the payroll register report to ensure that payroll transactions were accurately recorded on the state's accounting system.

The council inappropriately paid per diems totaling \$1,430 to four board members employed by the state or a political subdivision. Additionally, the council did not diligently pursue repayment from board members identified in our State-Paid Per Diem Report issued in March 2001.

Payroll represented the council's largest expenditure and averaged about \$234,000 each year. During the audit period, the council had four full-time employees. Each pay period, council staff completed timesheets and leave requests, which were approved by the executive director. The council's payroll timekeeper batched the documents and faxed them to the Department of Administration for data input. The council staff later submitted the original documents to the department, and retained copies at the council office.

The council also paid per diems in the amount of \$55 a day to board members for their participation in council activities. Minn. Stat. Section 15.0575, Subd. 3 governs the council's per diem compensation.

Audit Objectives and Methodology

The primary objectives of our audit were to answer the following questions:

- Did the council's internal controls provide reasonable assurance that payroll expenditures were accurately recorded in the accounting records and in compliance with applicable legal provisions and management's authorization?
- Did the council pay per diems in accordance with applicable legal provisions?

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- Did the council properly approve and monitor the use of overtime?

To address these objectives, we interviewed council and Department of Administration staff to gain an understanding of the internal control structure in place over payroll. We analyzed employee compensation and tested hours worked and pay rate increases to ensure compliance with the terms of applicable bargaining unit agreements. We determined if per diem payments were made appropriately to board members. We followed up on our *State Paid Per Diem Report*, issued in 2001, to determine if the council had obtained repayments from those board members who were ineligible to receive per diems due to their employment with the state or a political subdivision.

Prior to the audit, the Department of Administration notified our office that a council employee had admitted to falsifying overtime hours reported on her timesheets and leave requests. Because of this activity, the council terminated the employee on February 26, 2002. Based on this information, we expanded our normal testing and reviewed all overtime hours claimed by this individual during her tenure at the council. As part of the expanded work, we compared timesheets and leave requests submitted to the Department of Administration to the copies of the same timesheets and leave requests maintained at the council office to identify any differences between the two sets of documents. We also reviewed the council's electronic scheduling system and board minutes to substantiate the individual's attendance at council events scheduled outside of regular business hours. We interviewed three current and former council employees regarding the council's overtime policies and procedures and their recollection of the employee's attendance at council functions for which she had recorded overtime hours. On two different occasions, we subpoenaed the individual to appear in our office for sworn testimony. The employee agreed to answer our questions, however, refused to provide sworn testimony.

Conclusions

The Council on Black Minnesotan's internal controls did not provide reasonable assurance that payroll expenditures were accurately reported in the accounting records and in compliance with applicable legal provisions and management's authorization. The internal control weaknesses contributed to one employee receiving approximately \$5,500 over a three-year period for hours claimed on her timesheet that could not be substantiated, as discussed in Finding 5. The council did not have controls in place to either prevent or detect the employee from falsifying her payroll timesheets and leave records and receiving unauthorized pay. The council did not review the payroll register report to ensure that payroll transactions were accurately recorded on the state's accounting system, as discussed in Finding 6. The council inappropriately paid per diems totaling \$1,430 to four board members employed by the state or a political subdivision, as shown in Finding 7. Additionally, the council did not diligently pursue repayment from board members identified in our *State-Paid Per Diem Report*, issued in March 2001.

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5. A council employee falsified payroll timesheets resulting in payment to the employee for hours not worked.

We question approximately 328 hours or \$5,500 in compensation paid to a council employee during our audit period. Prior to the audit, the employee admitted to falsifying overtime hours on her timesheets and leave requests from August 2001 through February 2002. The Department of Administration estimated that the employee inappropriately claimed 85 hours of overtime totaling \$1,500 during this period. Because of this activity, the council terminated the employee on February 26, 2002.

Due to these circumstances, we reviewed all of the employee's time and leave records beginning with her employment in February 1998 through the date of termination. As a result of our review, we question additional payments made to the employee during the audit period. The employee's job responsibilities included submitting the council timesheets and leave requests to the Department of Administration for entry on SEMA4 each pay period. The employee faxed these documents to the department and later sent the originals in the mail. The employee retained copies of the timesheets and leave requests for the council's records. The employee had the opportunity to alter her timesheet and leave requests after obtaining the executive director's signature and before sending them to the Department of Administration.

We question 304 hours of overtime paid to the employee. We compared the employee's payroll records submitted to the Department of Administration to the copies maintained at the council office and found numerous differences. We generally found that the hours recorded on the records submitted to the Department of Administration were higher than those recorded on the copies maintained at the council office. For example, the employee recorded one hour of overtime worked on the copy of a timesheet on file at the council office while the employee recorded four hours of overtime on the timesheet sent to the Department of Administration. The employee explained that, after completing her timesheet at the end of the pay period, she would negotiate with her supervisor additional overtime pay that had not been approved in advance. We discussed the matter with the employee's supervisor who indicated that overtime was discussed in advance and not negotiated at the end of the pay period. We also questioned the employee's overtime hours when we could not substantiate the purpose of the overtime in the council minutes, electronic scheduling system, or through discussions with the employee's supervisors.

In addition, the employee took a three-day vacation, but did not record any leave taken for those days on her timesheet or leave requests. The employee recorded three days of vacation on the council's copy of the timesheet and leave request, but altered the timesheet and leave request sent to the Department of Administration. That timesheet reflected no vacation hours on the days in question and 6.5 hours in overtime. We obtained an internal office sign-in sheet that showed this employee was on vacation on the three days. As a result of this activity, the employee's leave balance was overstated by 24 hours. The employee was compensated for her accumulated vacation leave at termination.

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Recommendations

- *The council should work with the Office of the Attorney General to recover inappropriate payments to the former employee.*
- *The council should ensure adequate controls are in place to prevent and detect similar situations from occurring in the future.*

6. The council did not review the payroll register report to ensure that payroll and personnel transactions were entered accurately on SEMA4.

Each pay period, the Department of Administration entered payroll and personnel transactions into SEMA4, which generated payments to council employees. The department provided certain reports for the council to review, including the payroll posting audit trail. However, Administration did not provide the council with the payroll register. SEMA4 Operating Policy and Procedure PAY0028 requires agencies to review the payroll register to verify that time and amounts were paid at the correct rate, and any necessary adjustments were processed.

Without reviewing the payroll register, the council cannot determine if the payroll was input correctly, or if unauthorized transactions were processed. Failing to verify the payroll register contributed to the payroll concerns discussed in Finding 5. If the council staff had verified the payroll register to the employee's time and leave reports on file at the council office, it would have detected the questionable hours claimed.

Recommendation

- *The council should obtain and review the payroll register each pay period to verify the accuracy of payroll and personnel transactions entered on SEMA4.*

7. The council inappropriately paid per diems to some council members and did not diligently pursue collection of the overpayments.

The council paid \$1,430 in per diems to members who were either employed full-time by the state or a political subdivision. The 13-member council meets on a monthly basis. The members are entitled to per diem payments under Minn. Stat. Section 15.0575, Subd. 3. However, during the audit period, this statute prohibited full-time employees of the state, or a political subdivision of the state, from receiving per diem compensation. Our *State Paid Per Diem Report*, issued in 2001, identified one council member who received \$165 in per diem payments during fiscal year 2000 while employed full-time by the state. Subsequent to the release of that report, three more council members were deemed ineligible to receive per diem payments due to their employment status. Payments to these three individuals totaled \$1,265.

In July 2001, the council sent letters to these council members requesting repayment of the per diem amounts. However, as of May 2002, the council had not received any repayments. The

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council should actively pursue collecting the \$1,430 in per diem payments erroneously paid to ineligible members. Currently, the council effectively monitors the employment status of each member to ensure that it only pays authorized per diems.

Recommendation

- *The council should pursue collecting the \$1,430 in per diem payments made to board members who were ineligible to receive them due to their employment status.*

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Chapter 4. Grant Revenues and Expenditures

Chapter Conclusions

The council's internal controls did not provide reasonable assurance that grant revenue and expenditure transactions were properly recorded in the state's accounting system or that they complied with applicable legal provisions and management's authorization. We noted various weaknesses with the council's administration of its grant funds, including the following issues:

- *The council transferred \$58,000 in grant funds to a local foundation on June 30, 1999, to avoid losing the funds. The council had to spend the grant proceeds prior to June 30, 1999, or return any unspent funds to the grantor agency.*
- *The council did not comply with various grant terms such as availability of funds, reporting, and closeout. Also, the council could not provide documentation to support compliance with certain specific grant provisions.*
- *The council did not cancel about \$3,600 to the General Fund for funds not spent by the end of the biennium. The council received appropriations to provide grants for the annual Martin Luther King, Jr. celebration. The council granted the funds to a local foundation to disburse to the appropriate vendors. The unspent funds held by the local foundation did not cancel at the end of the biennium as required by the appropriation.*
- *The council did not have a current agreement with the local foundation to administer the annual Martin Luther King, Jr. celebration. The most recent agreement dated back to November 1985.*

The council received grant funds from several organizations during the audit period. The majority of the grants were from other state agencies. The largest grant received by the council was for the Martin Luther King, Jr. Nonviolent Institutional Child Development Pilot Program. The Legislature originally established this program in 1996 and appropriated \$200,000 to the Department of Public Safety's Office of Drug Policy and Prevention for a grant to the council. In 1997, the Legislature appropriated an additional \$175,000 to the Department of Public Safety for a grant to the council for continuation of the pilot program. The purpose of the grant was to plan, design, and implement interdisciplinary violence prevention and intervention programs.

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The Department of Children, Families & Learning provided a grant to the council to establish a clearinghouse of best educational practices in order to discover and develop the best ways to reach and teach youth in an attempt to improve student performance.

In addition to the state agencies, the council also entered into grant agreements with two local foundations, the Minnesota Foundation and the St. Paul Foundation. The Minnesota Foundation is a statewide community foundation dedicated to serving the philanthropic needs of Minnesota and surrounding communities. The Minnesota Foundation is affiliated with the St. Paul Foundation, which serves the greater St. Paul area. The council transferred funds to the Minnesota Foundation to administer its grant from CFL and the annual Martin Luther King, Jr. Holiday celebration. The council received a grant from the St. Paul Foundation to help finance the Minnesota Black Census Complete Count Committee to ensure maximum participation of African and African-American communities in the 2000 census.

Table 4-1 shows the grant funds received during the audit period.

Table 4-1
Grant Funds Received
July 1, 1998, through December 31, 2001

<u>Grantor</u>	<u>Description</u>	<u>Amount</u>
Public Safety ⁽¹⁾	MLK Youth Non-Violence Pilot Program	\$175,000
Public Safety	MLK Youth Non-Violence Pilot Program	23,459
Children, Families & Learning	Clearinghouse of Best Educational Practices	60,000
St. Paul Foundation	MN Black Census Complete Count	34,000
Administration	STAR Outreach Project	4,000
	Total Grant Revenues	<u>\$296,459</u>

Note (1): The grant funds were appropriated in fiscal year 1998, but the council carried forward the funds to budget fiscal year 1999.

Source: Minnesota Accounting and Procurement System.

Audit Objectives and Methodology

Our audit of the council's grant revenues and expenditures focused on the following objectives:

- Did the council's internal controls provide reasonable assurance that grant revenues and expenditures were properly recorded in the state's accounting system and complied with applicable legal provisions and management's authorization?
- For the items tested, did the council comply with significant finance-related legal provisions concerning grant revenues and expenditures?

To meet these objectives, we interviewed council employees to gain an understanding of the internal control structure related to grant revenues and expenditures. We reviewed grant agreements, budgets, and project reports. We tested a sample of revenue and expenditure transactions to determine if the council properly authorized, processed, and recorded the

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transactions. We also tested a sample of transactions to determine if the council complied with applicable legal provisions, including grant agreements.

Conclusions

The council's internal controls did not provide reasonable assurance that grant revenue and expenditure transactions were properly recorded in the state's accounting system, or that they complied with applicable legal provisions and management's authorization. We noted various weaknesses with the council's administration of its grant funds.

We discuss the following weaknesses in Finding 8. The council transferred \$58,000 in grant funds to a local foundation on June 30, 1999, to avoid losing the funds. The council had to spend the grant proceeds prior to June 30, 1999, or return any unspent funds to the grantor agency. The council did not comply with various grant terms such as availability of funds, reporting, and closeout. Also, the council could not provide documentation to support compliance with certain specific grant provisions.

The council did not cancel about \$3,600 to the General Fund for funds not spent by the end of the biennium. The council received appropriations to provide grants for the annual Martin Luther King, Jr. celebration. The council granted the funds to a local foundation to disburse to the appropriate vendors. The unspent funds held by the local foundation did not cancel at the end of the biennium as required by the appropriation.

The council did not have a current agreement with the local foundation to administer the annual Martin Luther King, Jr. celebration. The most recent agreement dated back to November 1985.

8. The council did not administer its grants in compliance with Minnesota statutes or grant agreements.

The council received and disbursed grants during our audit period. As part of the grant process, the council entered into grant agreements with various authorized parties. Each grant stipulated specific terms that each party agreed to comply with as a condition of participating in the grant. However, during our review of the grant process, we identified the following weaknesses:

- The council intentionally transferred grant proceeds to a local foundation to avoid losing the grant revenue. In fiscal year 1999, the council received a \$60,000 grant from the Department of Children, Families & Learning (CFL) to establish a Clearinghouse of Best Educational Practices. The grant period ended June 30, 1999, and all costs had to be incurred prior to that date. As of June 30, 1999, the council had received \$58,000 from CFL and had not spent any of the grant funds. The council entered into an agreement with the foundation, which created the Council on Black Minnesotans Fund for Best Education Practices.

On June 30, 1999, the council sent an "urgent" request to the Department of Administration to issue a warrant to the foundation for \$58,000. The state's accounting

Council on Black Minnesotans

system recorded the transaction as a grant expenditure as of June 30, 1999, so it appeared that the council had spent the funds within the time period. However, after June 30, 1999, the council entered into agreements with nine vendors to provide services related to the grant. The foundation paid these vendors approximately \$52,000 on behalf of the council. These transactions were not recorded on MAPS, the state's accounting system.

The council also violated its grant agreement with CFL, which prohibited assigning any rights or obligations under the agreement without CFL's prior written consent. The agreement signed between the council and the foundation stipulates that, "the foundation has the ultimate authority and control over the fund and all distributions from the fund." The agreement further stipulates that the council's executive director would serve in an "...advisory capacity to the fund and may make non-binding recommendations to the foundation concerning proposed distributions from the fund."

Further, the council has not returned approximately \$6,800 of unexpended grant funds to CFL as stipulated in the grant agreement. The foundation's records show a \$4,800 balance in the council's account. In addition, the council is holding one foundation check for \$2,000 dated August 26, 1999, that it never sent to the vendor. The council is holding the check because the vendor did not complete the work. However, at this point it appears quite likely that the work will not be completed, and the council should cancel the check and return the grant funds.

By transferring the grant funds to the foundation, the council not only violated the terms of the grant, but it also prevented the state from monitoring the grant activity. The only transaction recorded on MAPS was the initial transfer to the foundation. MAPS did not record the actual program expenditures. Further, the state could not enforce or monitor the various procurement and payment requirements.

- The council also transferred General Fund appropriations for the annual Martin Luther King, Jr. holiday celebration to the foundation. The council transferred \$56,000 during fiscal years 1999, 2000, and 2001 to the foundation, which coordinated activities associated with the holiday celebration, including paying all costs incurred. The foundation also maintained the financial records for the program. For the fiscal years ended June 30, 1999 and 2001, the council's account at the foundation had unallotted balances of \$3,014 and \$597, respectively. These funds should have been returned to the state and canceled to the General Fund at the end of each biennium.
- The council received a \$34,000 grant from a local foundation for the 2000 census. The purpose of the grant was to help achieve maximum participation of Minnesota's black community in the census. The grant agreement prohibited the council from incurring expenditures after the end of the grant period, June 30, 2000. However, after the grant end date, the council entered into agreements with two vendors for \$8,000.

Also, the agreement between the council and the foundation stipulated that the council had to return any unexpended grant funds to the foundation at the end of the grant period.

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At June 30, 2000, the council had approximately \$3,950 of unexpended grant funds. As of May 2002, the council had not returned the funds to the foundation.

Finally, the council did not prepare a comprehensive report on the census grant, as outlined in the grant agreement. The agreement required the council to complete a final report that included project information, financial information, and a financial statement. The council reported on the project information but did not provide the financial information.

- Finally, council staff could not provide documentation to support certain grant activities. The council's grant agreements with the departments of Public Safety and Children, Families & Learning contained certain requirements for the council to fulfill in order to receive the grants. Some of the requirements included submission of budget documents, project reports, and cost reimbursement requests. The council was unable to locate some of this required documentation. Without adequate supporting documentation, we could not determine if the council properly received grant funds, if its expenditures were allowable and properly recorded in the accounting system, or if it complied with other material provisions of the grant agreements.

Recommendations

- *The council should repay the \$58,000 Clearinghouse of Best Educational Practices grant to CFL, including the \$4,800 at the foundation and the \$2,000 foundation check it is holding.*
- *The council should comply with the terms of its grant agreements, such as spending grant funds within the period of availability of funds, and closing out completed grants, including returning any unspent funds at the end of the grant.*
- *The council should administer its grant programs through the state treasury and record the activity on the state's accounting system.*
- *The council should collect all unexpended Martin Luther King, Jr. holiday celebration funds from the foundation and cancel the amounts back to the General Fund.*
- *The council should contact the local foundation to determine if the \$8,000 spent after the grant period for the census grant needs to be repaid.*
- *The council should have properly executed contracts with all vendors as required by statute.*
- *The council should retain supporting documentation to document compliance with provisions contained in the grant agreements.*

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Chapter 5. Contractual Services

Chapter Conclusions

Generally, the council's internal controls provided reasonable assurance that contractual services expenditures were accurately reported in the accounting records and in compliance with applicable legal provisions and management's authorization. However, the council did not document its compliance with certain legal requirements for some contracts. Specifically, the council paid one vendor \$3,500 more than the contract allowed.

For the items tested, the council complied with significant finance-related legal provisions concerning contract services. However, the council allowed work to begin on some projects before the contracts were fully executed.

The council entered into contracts with various vendors in order to fulfill its mission and to provide services funded from various grants. The council incurred contractual service expenditures of \$170,000 over the audit period. The council paid about 84 percent of contract service expenditures to vendors for the Martin Luther King Non-Violence Pilot Project and the 2000 census grants.

Audit Objectives and Methodology

Our review of contractual service expenditures focused on the following objectives:

- Did the council's internal controls provide reasonable assurance that contractual service expenditures were accurately reported in the accounting records and in compliance with applicable legal provisions and management's authorization?
- For the items tested, did the council comply, in all material respects, with significant finance-related legal provisions concerning contractual service payments?

To meet these objectives, we interviewed council employees to gain an understanding of the internal control structure related to contractual services. We tested samples of transactions to determine whether the council properly authorized, processed, and recorded the contractual expenditures.

Conclusions

Generally, the council's internal controls provided reasonable assurance that contractual services expenditures were accurately reported in the accounting records and in compliance with

Council on Black Minnesotans

applicable legal provisions and management's authorization. However, the council did not document its compliance with certain legal requirements for some contracts, as discussed in Finding 9. Specifically, the council paid one vendor \$3,500 more than the contract allowed.

For the items tested, except for the following issue, the council complied with significant finance-related legal provisions concerning contract services. The council allowed work to begin on some projects before the contracts were fully executed.

9. PRIOR AUDIT FINDING NOT RESOLVED: The council did not comply with certain legal requirements for some contracts.

We reviewed various contracts entered into by the council during our audit period. We identified the following weaknesses related to the council's management of its contracts:

- The council did not always properly approve the contracts as required by statute. Minn. Stat. Section 3.9225, Subd. 5 requires that contracts be approved by a majority of the members of the council and executed by the chair and the executive director. In three instances, the meeting minutes did not reflect the council's approval of the contracts. Further, in three instances, the council chair did not sign the contract. Finally, we found one contract that the executive director did not sign.
- In three instances, the council permitted work to begin on contracts before the contracts were fully executed. Minn. Stat. Section 16C.05, Subd 2 requires that all parties properly sign and execute the contract before the state considers it valid and work can begin. This limits the state's liability and clarifies the responsibilities of the council and the contractor.
- In addition, the council paid some contractors in excess of contract amounts. One contractor provided services under the Best Educational Practices Grant, and the council paid the vendor \$3,500 more than the contract amount. The council could not provide any evidence of a contract extension or amendment. Another contractor who provided services under the Census Grant was overpaid \$50.
- Finally, the council could not locate documents to support five payments totaling \$6,239. Some of the missing documentation included purchase orders and reports generated by the vendor showing the amount charged.

By not properly managing its contracts, the council increases its risk that the vendors will not perform the work in the manner that the council intended. Also, the council may incur costs it did not anticipate.

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Recommendations

- *The council should ensure that all contracts are properly authorized and signed in accordance with statutory requirements.*
- *The council should not permit work to begin on any project until all parties have properly signed and executed the contract.*
- *The council should process contract amendments if there are changes in project scope.*
- *The council should ensure that it maintains documentation to support all transactions.*

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Chapter 6. Other Administrative Expenditures

Chapter Conclusions

Generally, the council's internal controls provided reasonable assurance that it accurately reported other administrative expenditures in the accounting records and complied with applicable legal provisions and management's authorization. However, the council did not maintain a travel log to document the miles driven on its assigned motor pool car. Also, the council could not account for a printer it purchased and subsequently returned to the manufacturer.

For the items tested, except for the following issue, the council complied with significant finance-related legal provisions concerning other administrative expenditures. The council did not comply with the state's special expense policy.

In addition to payroll, the council incurred other administrative expenditures, such as space rental, other purchased services, motor pool charges, printing, and supplies. These expenditures support the council's daily operations. For our audit period, the council spent about \$203,000 on these expenditures.

Space Rental

The council has an office space lease that the Department of Administration's Real Estate Management Division negotiated. Its lease payments averaged about \$22,000 per year. The landlord sent a monthly invoice to the council for its review, approval, and submission to the Department of Administration for payment. During the timeframe from November 1998 through October 1999, the landlord billed the council a monthly rate that was less than the amount in the current lease. The council paid the amounts billed, which totaled \$758 less than the lease provisions.

Travel

The majority of the council's travel expenditures relate to vehicle rentals from the Department of Administration's Travel Management Division (TMD). During our audit period, the council paid TMD an average of \$5,300 per year. Rather than rent a state vehicle for each trip, the council deemed it more cost beneficial to have a permanently assigned state vehicle. TMD bills the council monthly for the permanently assigned car and also for any other vehicles the council may have rented.

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Other Purchased Services

The council spent about \$76,000 on other purchased services during our audit period. This expenditure type includes miscellaneous costs that do not fit into any other cost category. Most of these costs related to transfers the council made to a local foundation to administer the Martin Luther King, Jr. Holiday celebration. Other costs included meals for board meetings, community forums, and other transactions related to the council's general operations.

Audit Objectives and Methodology

Our review of other operating costs focused on the following objectives:

- Did the council's internal controls provide reasonable assurance that other administrative expenditures were accurately reported in the accounting records and in compliance with applicable legal provisions and management's authorization?
- For the items tested, did the council comply, in all material respects, with significant finance-related legal provisions concerning other administrative expenditures?

To meet these objectives, we interviewed council employees to gain an understanding of the internal control structure in place related to other administrative expenditures. We tested samples of transactions to determine whether the council properly authorized, processed, and recorded these expenditures.

Conclusions

Generally, the council's internal controls provided reasonable assurance that it accurately reported other administrative expenditures in the accounting records and complied with applicable legal provisions and management's authorization. However, the council did not maintain a travel log to document the miles driven on its assigned motor pool car, as discussed in Finding 10. Also, the council could not account for a printer it purchased and subsequently returned to the manufacturer, as shown in Finding 12.

For the items tested, except for the following issue, the council complied with significant finance-related legal provisions concerning other administrative expenditures. The council did not comply with the state's special expense policy, as discussed in Finding 11.

10. The council did not properly report personal use of its permanently assigned state vehicle.

The council has a state vehicle permanently assigned. The council used the vehicle almost exclusively for business. However, occasionally council employees used the vehicle for personal use. Travel Management defines personal use as commuting and local and out of town personal travel. The state allows a limited amount of personal use, but requires the employee to reimburse the state for such use. Internal Revenue Service regulations require that the value of the

Council on Black Minnesotans

personal use of an employer provided vehicle be included in the wages that are included on the annual W-2 Wage and Tax Statement Form. However, the council did not maintain a log to distinguish business and personal use and, therefore, employees did not reimburse the state for any personal use miles driven.

The council's executive director's job responsibilities take him out of the office for meetings and other functions in the community. Due to safety concerns, the landlord requested that the council not leave the vehicle at the office. Therefore, the executive director incurred personal commute miles when he drove the vehicle to or from his home. The commute should be considered personal miles, and recorded on the employee's timesheet so that it is properly reported for tax purposes.

Recommendation

- *The council should maintain a mileage log to identify personal use miles and properly record these miles on employee timesheets.*

11. PRIOR FINDING NOT RESOLVED. The council did not comply with the state's special expense policy.

The council did not have an approved special expense plan on file with the Department of Employee Relations. Also, the council did not obtain prior approval before incurring special expenses. According to Department of Employee Relations Administrative Procedures 4.4, "special expenses are expenses incurred in connection with official functions of an agency...which are not reimbursable through the regular expense regulations." At the council, these types of expenses were primarily for meals for various functions, such as council meetings and community forums.

The special expense policy requires an agency to develop a written plan describing the types of special expenses it will incur. The plan must be submitted to the departments of Employee Relations and Finance for approval. The policy also cautions that "all meetings shall be scheduled to minimize inclusion of meals."

The policy also states that, "...Except in emergency situations, approval is required before any special expense is incurred and before commitments involving special expenses are made." Our review showed that for 23 out of 42 special expense requests, the council signed and dated the request after the event occurred.

In November 1999, the council incurred a special expense of \$465 for an employee's farewell party. The policy allows reasonable costs for employee recognition events, up to 100 percent reimbursement for the employee being recognized. However, the policy specifically prohibits reimbursement for other guests. According to the policy, the council should only have paid for the departing employee's meal, not everyone that attended the party.

Council on Black Minnesotans

Our prior audit also disclosed that the council did not have an approved written special expense plan on file. Without an approved special expense plan, there is no assurance that the council would only incur costs that comply with the special expense policy.

Recommendations

- *The council should develop a special expense plan in accordance with Administrative Procedure 4.4 and submit it to the departments of Employee Relations and Finance for approval.*
- *The council should obtain approval to incur special expenses prior to the event taking place.*
- *The council should only incur special expense allowed under the state's special expense policy.*

12. The council could not account for a printer it purchased.

The council purchased a \$474 printer in June 1999. Due to problems with the printer, the council told us that they returned it to the manufacturer. However, the council had no record of returning the printer. The council could not provide any evidence, such as a credit memo from the vendor, showing that the printer was returned, or provide evidence that the printer had been replaced. Without any evidence confirming that the council returned the printer, it is likely that the printer was either lost or stolen. The council is responsible for safeguarding items it purchased with state funds.

Recommendation

- *The council should properly safeguard all of its assets.*

**Status of Prior Audit Issues
As of May 20, 2002**

Most Recent Audit

Legislative Audit Report 97-33, issued in June 1997, covered the four fiscal years ended June 30, 1996. The audit scope included gifts and grants, employee payroll, contracts and other purchased services, printing, space rental, and travel expenditures. The report contained three findings related to gift receipts, contracts, and special expense. The department did not implement two of the recommendations discussed in the audit. We repeated the concerns relating to contracts and special expenses in Findings 9 and 11 of this report. We did not review the gift area in sufficient detail to determine whether the recommendation had been implemented, as the activity in this area was not material to our current audit scope.

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 and quasi-state organizations, such as the metropolitan agencies or the State Agricultural Society, the state constitutional officers, or the judicial branch.

Council on Black Minnesotans

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STATE OF MINNESOTA
COUNCIL ON BLACK MINNESOTANS

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2233 University Avenue • St. Paul, MN 55154 • (651) 642-0811 • 643-3580 FAX

September 3, 2002

Mr. James R. Nobles
Legislative Auditor
Office of the Legislative Audit
140 Centennial Building
658 Cedar Street
Saint Paul, Minnesota 55155-1630

Please accept the attached response of the Council on Black Minnesotans to the draft audit report prepared by your staff. We sincerely appreciate the effort taken by audit staff to clarify issues raised in the report at our last meeting. And, we thank you for and greatly appreciate the professional and helpful manner in which the audit was conducted.

Please inform us if there are any particular issues or recommendations that we appear not to have fully understood or covered adequately in our response. Thanks again for your assistance and cooperation in carrying out this most difficult task.

Very truly yours,

/s/ Lester R. Collins

Lester R. Collins
Executive Director

COUNCIL ON BLACK MINNESOTANS

A. FINANCIAL MANAGEMENT

1. Transactions were not accurately recorded in the state's accounting system.

As a result of the audit, greater attention will be paid by the Council to assigning the correct record date to all of the council's expenditure transactions. Unfortunately, we were not aware that we needed to provide this specific transaction information. This oversight will be corrected immediately. In addition, we will create a closer partnership with the Department of Administration to ensure appropriate coding. And, we will make every effort to record grants in the proper fund.

2. Payments for certain goods and services were not made in a timely fashion.

Efforts have already been made to correct this situation by more closely monitoring both the payment process and grantee contract performance to ensure compliance with state statutes and/or contract terms.

3. Delegation of key financial responsibilities in the executive director's absence.

At its next board meeting, on September 9, 2002, steps will be taken to correct this situation. Roger W. Banks, Research Analyst, will formally be designated to approve transactions in the executive director's absence. And, only authorized council staff will incur obligations on behalf of the council.

B. PAYROLL AND PER DIEMS

1. Falsified payroll timesheets.

The council will cooperate fully with the Office of the Attorney General to facilitate recovery of inappropriate payments made to a former employee. A preliminary repayment plan has already been submitted to Human Resources. And, to prevent and detect that similar situations do not occur in the future, additional controls will be put in place. More specifically, our Office Specialist will receive and record payment requests and the Executive Director, using payroll reports to check submissions, will closely review and monitor the process to ensure appropriateness.

2. Review and use of the payroll register report.

The council will make every effort to obtain and review the payroll register report each pay period to verify the accuracy of payroll and personnel transactions entered on SEMA4. The council has only recently been receiving this report.

COUNCIL ON BLACK MINNESOTANS

3. Inappropriately paid per diems to council members and council repayment collection efforts and plans.

The council will continue to pursue collecting the \$1,430 in per diem payments made to council members who were ineligible to receive them due to their employment status with state or local government entities. Our most recent effort to accomplish repayment was July 2002. It should be noted that members who have received these payments have agreed to repayment. All that remains is determining a specific repayment process and schedule that will accommodate their needs and abilities – and meets established protocol. It is anticipated that this goal will be achieved by the first of the year, 2003.

However, the council needs clarification regarding the impact that amendments to per diem policy might have on this issue. It is our understanding that, currently, if members attended meetings on their own time, then those members are eligible for per diem payment. If this understanding is correct, then we need to know the date when this policy was put into effect. This clarification is important because it will allow the council to determine if it has been withholding legitimate per diem payments.

C. GRANT REVENUES AND EXPENDITURES

1. Council did not administer grants in compliance with Minnesota statutes or grant agreements.

The council is currently taking steps to improve its abilities to administer grant agreements to ensure compliance with Minnesota statutes. It is creating an information system that will allow staff to monitor grant funds and project performance. This system will ensure that grants are expended within the period of availability and facilitate the closing out of completed grants. Part of the council's inability to document compliance is a function of staff turnover. It should be noted that in one instance the council requested and received a grant extension. Current staff, however, was unable to locate the appropriate documentation. The proposed information system will be designed to correct this problem. It will also contain a check off process to monitor project performance and compliance with contract provisions.

Henceforth, the council will ensure that all of its contracts with vendors will be fully executed. While, in several instances, council gave contract approval, these contract plans were contained in the agency's annual plan agreements which had no place for the signature of the council's chairperson.

The council will also administer its state grant programs through the state treasury and follow state requirements regarding the recording of all such activity on the state's accounting system.

COUNCIL ON BLACK MINNESOTANS

Subsequent to June 30, 2002, the council returned \$3,950 of unexpended grant funds to the Saint Paul Foundation. And, it is in the process of communicating with the foundation to determine if the \$8,000 of census project funding spent after the specified grant period should be returned. We will inform you of its decision. The council will, by January 30, 2003, reconstruct/locate records and develop a financial report on the census project that will be in compliance with the grant agreement.

The council will, in response to the recommendation to repay the \$58,000 of Best Educational Practices grant to Children, Families & Learning, first contact previous staff and attempt to locate relevant documentation. Efforts will be made to reconstruct and develop requisite reports that will demonstrate contract compliance. The council will also be in communication with the Children, Families & Learning Department in an attempt to resolve this situation and to determine their requirements. The council is pleased to report that the \$2,000 foundation check it was holding has been returned.

It has been recommended that the council collect all unexpended Martin Luther King Jr. holiday celebration funds from the foundation and return them to the General Fund. It should be noted that each year expenditures for this event greatly exceeds the state appropriation for this event. The council has used the state's appropriation to leverage additional contributions. We need guidance as to whether or not unexpended funds from the private sector should go to the General Fund.

D. CONTRACTUAL SERVICES

The council will, through the newly proposed information system, have the capability to monitor and evaluate contract performance. Steps will be taken to ensure projects will not be implemented before contracts are fully executed. And, the approval of all contracts will be appropriate, documented and timely. Any amendments to the scope of a project will be recorded and properly processed.

E. OTHER ADMINISTRATIVE EXPENDITURES

1. Council did not properly report personal use of its permanently assigned state vehicle.

A mileage log will be diligently used by the council to identify personal use. This information will be properly recorded on the employee timesheets.

COUNCIL ON BLACK MINNESOTANS

A special expense plan will be developed and submitted to the Departments of Employee Relations and Finance for approval. It will conform to Administrative Procedure 4.4. Henceforth, the council will adhere to the state's special expense policy and obtain approval prior to the event before incurring expenses.

2. Council unable to account for printer it purchased.

While the council is confident that the specific printer in question was returned, greater and more systematic efforts will be made to maintain records and documentation of council transactions; with the goal of safeguarding all of its assets.

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September 10, 2002

Office of the Commissioner
200 Administration Building
50 Sherburne Avenue
St. Paul, MN 55155
Telephone: 651.296.1424
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TTY: 651.297.4357

James R. Nobles, Legislative Auditor
First Floor South, Centennial Building
658 Cedar Street
St. Paul, MN 55155

Dear Mr. Nobles:

Thank you for the opportunity to discuss with your staff the results of the audit of the Council on Black Minnesotans for the period July 1, 1998 though December 31, 2001. We recognize the significance of the financial management audit issues addressed within the report and are committed to working with the council to improve financial reporting practices.

Effectively immediately we will step-up our communications with the council to obtain the necessary documentation (e.g. receiving reports, grant agreements, gift acceptance forms) to ensure accurate processing of transactions. We will strengthen controls internally to ensure that staff deposits funds in the proper account and process payments using the correct record dates and object codes. Soon we will meet with the council and possibly modify our agreement with the council delineating each party's responsibilities for accounting and financial activities. Larry Freund will be the person responsible for working with the council to resolve the financial management audit issues.

Regarding the payroll audit issues, Admin's Human Resources Division is now providing the council with the biweekly payroll register report. This will enable the council to verify that payroll and personnel transactions are entered accurately in SEMA4.

Should you have any questions, please feel free to contact Larry Freund, Financial Management Director, at 651-296-5857 for assistance.

Very truly yours,

/s/ David S. Fisher

David F. Fisher
Commissioner