



OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

Financial Audit Division Report

Agricultural Utilization Research Institute

October 1, 2000, to September 30, 2003



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 forty 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.

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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OFFICE OF THE LEGISLATIVE AUDITOR
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Mr. Edgar Olson, Executive Director
Agricultural Utilization Research Institute

Mr. Al Christopherson, Chair
Agricultural Utilization Research Institute Board of Directors

We have audited selected areas of the Agricultural Utilization Research Institute (AURI) for the period October 1, 2000, through September 30, 2003. Our audit scope was limited to grant projects and payroll. The Report Summary highlights our overall audit conclusions. The specific audit objectives and conclusions are contained in the individual chapters of this report.

We selected AURI for audit based on our annual assessment of state agencies and programs. We used various criteria to determine the entities to audit, including the size and type of each agency's financial operations, length of time since the last audit, changes in organizational structure and key personnel, and available audit resources.

We conducted our audit in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we obtain an understanding of AURI's internal controls relevant to the audit objectives. We used the guidance contained in *Internal Control-Integrated Framework*, published by the Committee of Sponsoring Organizations of the Treadway Commission, as our criteria to evaluate agency controls.

The standards also require that we plan the audit to provide reasonable assurance that AURI complied with financial-related legal provisions that are significant to the audit. In determining AURI's compliance with legal provisions, we considered requirements of laws, regulations, contracts, and grant agreements.

To meet the audit objectives, we gained an understanding of AURI's financial policies and procedures. We considered the risk of misstatements in the accounting records and noncompliance with relevant legal provisions. We analyzed accounting data to identify unusual trends or significant changes in financial operations. We examined a sample of evidence supporting the agency's internal controls and compliance with laws, regulations, contracts, and grant provisions.

/s/ James R. Nobles

James R. Nobles
Legislative Auditor

/s/ Claudia J. Gudvangen

Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

End of Fieldwork: June 11, 2004

Report Signed On: August 16, 2004

Agricultural Utilization Research Institute

Table of Contents

	Page
Report Summary	1
Chapter 1. Introduction	2
Chapter 2. Payroll	3
Chapter 3. Grants	5
Status of Prior Audit Issues	7

Audit Participation

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

Claudia Gudvangen, CPA	Deputy Legislative Auditor
Thomas Donahue, CPA	Audit Manager
Patrick Phillips, CPA	Auditor-in-Charge
April Snyder	Auditor

Report Summary

Key Conclusions:

- The institute properly compensated its employees in accordance with board policy, and its internal controls provided reasonable assurance that grants were in compliance with applicable board policies and management's authorization.

The audit report contained no audit findings relating to internal control and legal compliance. The organization resolved all findings included in our prior audit report.

Audit Scope:

October 1, 2000 to September 30, 2003

Programs Audited:

- Grants
- Payroll

Agency Background:

The Agricultural Utilization Research Institute was established by the Minnesota Legislature in 1989. The institute promotes new markets, products, and product uses, as well as the expansion of existing markets for the state's agricultural commodities and products. The institute received a \$2.84 million General Fund appropriation in fiscal year 2003.

Chapter 1. Introduction

Laws of 1989, Chapter 350, Article 7, established the Agricultural Utilization Research Institute (AURI), a nonprofit corporation, to strengthen the rural economy. The institute's mission is to develop value-added uses and the expansion of new markets for Minnesota's agricultural commodities. The institute builds working partnerships that seek to combine diverse Minnesota agricultural resources, innovative ideas, and applied scientific principles. The overall goal of the institute's efforts is to facilitate long-term economic benefits through increased business and employment opportunities in rural Minnesota.

Minn. Stat. Section 1160.09 provides for a nine-member board, comprised of two members of the Legislature, two representatives of statewide farm organizations, two representatives of agribusiness, and three representatives of the commodity promotion councils. The AURI board of director's appointed Edgar Olson as its executive director in July 1997. AURI has three field offices located in Crookston (also the AURI state headquarters), Marshall, and Waseca.

AURI is primarily funded by General Fund appropriations. The Legislature appropriated \$4.13 million, \$3.88 million, and \$4.13 million for fiscal years ending June 30, 2001, 2002, and 2003, respectively. For fiscal years 2002 and 2003, \$400,000 and \$1.288 million, respectively, were unallotted or cancelled to the General Fund as part of the state's budget balancing procedures.

A CPA firm annually audits the financial statements of the Agricultural Utilization Research Institute and provides an independent auditor's report. For fiscal years 2001, 2002, and 2003, AURI recorded expenses of approximately \$4.56 million, \$3.90 million, and \$3.12 million, respectively. AURI received an unqualified opinion on its financial statements.

Payroll and fringe benefits were the institute's largest operating costs. As state appropriations have declined grant disbursements also have been reduced. As a result, the institute provides more technical assistance to clients rather than financial assistance.

The following report chapters discuss our review of internal controls and compliance with significant laws and regulations for payroll and grants.

Chapter 2. Payroll

Chapter Conclusions

The Agricultural Utilization Research Institute properly compensated its employees in accordance with board policy. In addition, the institute appropriately withheld and contributed the proper amounts for retirement and employee benefit plans.

Audit Objectives

Our review of the Agricultural Utilization Research Institute's payroll focused on answering the following questions:

- Did the institute compensate its employees in accordance with the payroll policies and provisions established by the board?
- Did the institute appropriately withhold and contribute the proper amounts for retirement and employee benefit plans?

Background Information

AURI's main operating cost is payroll. During the audit period, AURI incurred approximately \$5.8 million of payroll costs representing about 50 percent of its expenses. Currently, AURI employs 13 full-time employees and 5 part-time employees. Institute employees are not state employees; however, they may participate in state retirement, deferred compensation, insurance and other employee benefit plans that apply to state employees. The executive director sets compensation levels, hires, and discharges employees within the limits and policies established by the board.

The institute outsourced payroll processing to Paychex, a national company providing payroll services. Those services include processing new employee appointment information, salary increases, direct deposit to employee accounts, preparation of W2 forms, as well as applicable payroll tax forms. The institute's accountant enters the payroll data into the Paychex system through the Internet. Finally, Paychex generates summary payroll reports to allow for management review and recording in the accounting records.

Agricultural Utilization Research Institute

Table 2-1 provides an overview of the institute's payroll expenses during the audit period.

	<u>2001</u>	<u>2002</u>	<u>2003</u>
Salaries and payroll taxes	\$1,785,287	\$1,654,099	\$1,414,945
Retirement contribution	91,216	88,615	76,475
Health insurance	219,182	225,518	224,527
Unemployment insurance and workers' compensation	13,117	12,792	14,592
Total	<u>\$2,108,802</u>	<u>\$1,981,024</u>	<u>\$1,730,539</u>

Source: AURI data.

There were no findings related to payroll expenses.

Chapter 3. Grants

Chapter Conclusions

The Agricultural Utilization Research Institute's internal controls provided reasonable assurance that grants were in compliance with applicable board policies and management's authorization.

Audit Objective

Our review of the Agricultural Utilization Research Institute's grants focused on the following question:

- Did the institute's internal controls provide reasonable assurance that grants complied with the grant policies and provisions established by the board and management authorizations?

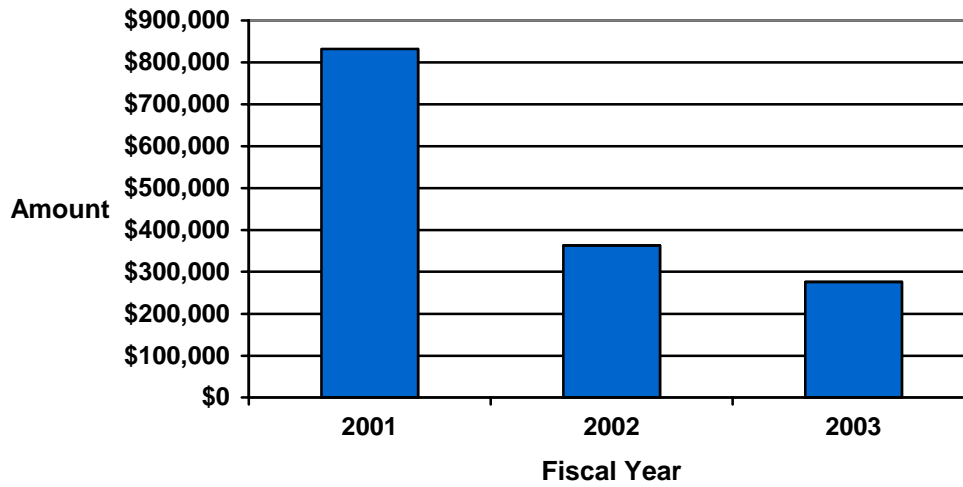
Background Information

The institute provides expertise and assistance to increase value, demand, and market opportunities for agriculturally-based products. It provides technical expertise and financial assistance under the programs offered to Minnesota-based clients. These programs are product development services, applied technology services, distribution enhancement, technology transfer, initial project assessment, and market assessment. Financial assistance is provided to clients through grant projects, which totaled \$1,470,954 during the audit period.

Figure 3-1 shows the amount of grant disbursements by fiscal year.

Agricultural Utilization Research Institute

Figure 3-1
Agricultural Utilization Research Institute
Grants Disbursed
October 1, 2000, through September 30, 2003



Note: AURI's grants decreased from fiscal year 2001 to 2003 due to state budget cuts.

Source: AURI accounting records.

There were no findings related to grant projects.

**Status of Prior Audit Issues
As of June 11, 2004**

Most Recent Audit

Legislative Audit Report 99-52 covered the three fiscal years ending September 30, 1998. The audit focused on the overall financial management, project funding (grants/loans), and payroll expenses. The report contained seven findings. The institute sufficiently resolved all seven issues contained in the 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 and quasi-state organizations, such as the metropolitan agencies or the State Agricultural Society, the state constitutional officers, or the judicial branch.