



OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

Financial Audit Division Report

Minnesota Board on Aging
July 1, 2001, through June 30, 2005



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.

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If you have comments about our work, or you want to suggest an audit, investigation, or evaluation, 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

Kevin Goodno, Commissioner
Department of Human Services

Jim Varpness, Executive Director
Minnesota Board on Aging

Members of the Minnesota Board on Aging

We conducted an audit of the Minnesota Board on Aging for the period July 1, 2001, through June 30, 2005. Our audit scope included aging cluster grants, payroll, and administrative expenditures. Our objectives focused on a review of the board's internal controls over these financial activities and its compliance with applicable legal provisions.

The enclosed Report Summary highlights our overall audit conclusions. The specific audit objectives and conclusions for each area are contained in the individual chapters of this report.

We would like to thank the staff assigned to the Board on Aging and the Department of Human Services for their cooperation during this audit.

/s/ James R. Nobles

James R. Nobles
Legislative Auditor

/s/ Claudia J. Gudvangen

Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

End of Fieldwork: July 15, 2005

Report Signed On: August 15, 2005

Minnesota Board on Aging

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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 |
| Jeanine Leifeld, CPA, CISA | Audit Manager |
| Ching-Huei Chen, CPA | Auditor-in-Charge |
| Laurinda Zavala | Auditor |

Exit Conference

We discussed the results of the audit with the following representatives of the Minnesota Board on Aging at an exit conference on August 1, 2005:

| | |
|---------------|-----------------------------|
| Jim Varpness | Executive Director |
| Jim Knobel | Budget Supervisor |
| Dave Ehrhardt | DHS Internal Audit Director |

Report Summary

Key Findings:

- Staff assigned to the Minnesota Board on Aging did not comply with certain reporting requirements for the federal aging grant programs. They did not complete a required report and were unable to provide documentation to support the amounts on two other federal reports. (Finding 1, page 6)
- The staff did not review certain payroll reports to confirm that payroll transactions were entered correctly. (Finding 2, page 10)
- The staff did not follow applicable legal provisions and policies for some administrative purchases. They allowed one contractor to begin working before the contract was signed. They also did not approve some invoices before they were paid. (Finding 3, page 12)

The report contained four findings related to internal control and legal compliance.

Audit Scope:

Audit Period:

July 1, 2001, to June 30, 2005

Programs Audited:

- Federal Aging Grants
 - Payroll Expenditures
 - Administrative Expenditures
-

Agency Background:

The Minnesota Board on Aging was established in 1956 as the Governor's Council on Aging. The board consists of 25 members. The board's mission is to represent the needs and interests of older Minnesotans to the Governor, Legislature, state agencies, and others in Minnesota and to administer the Older Americans Act and state programs to meet the needs and support the independence of older persons in the state. The board is staffed by the Department of Human Services' employees.

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Chapter 1. Introduction

The Office of the Legislative Auditor selected the Minnesota Board on Aging for audit based on an 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. Although the Board on Aging staff are appointed through the Department of Human Services, pursuant to *Minnesota Statutes*, Section 256.01, subd. 9, to perform its administrative duties, we believe that the board has sufficient autonomy to warrant being separately audited.

Agency Overview

The Minnesota Board on Aging was established in 1956 to plan for and meet the special needs of the state's senior citizens. The Governor appoints 25 members to the board from areas throughout the state, including at least one member from each congressional district. The board develops, coordinates, evaluates, and administers federal and state funds for programs for the aging; makes grants to seven area agencies on aging and other nonprofit agencies; and serves as an advocate for older persons. The board is the gateway to services for seniors and their families. The board listens to senior concerns, researches for solutions, and proposes policies to address senior needs. In addition, the board administers funds from the Older Americans Act that provide a spectrum of services to seniors. The board is staffed by the Department of Human Services' employees.

Table 1-1 summarizes the board's financial activities for fiscal years 2002 – 2005. The majority of the board's funding is from federal grants. It also receives allocations from the General Fund.

Audit Approach

Our audit was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we obtain an understanding of the board'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 the board complied with financial-related legal provisions that are significant to the audit. In determining the board'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 the Board on Aging's financial policies and procedures. We considered the risk of errors 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 documents supporting the

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board's internal controls and its compliance with laws, regulations, contracts, and grant provisions.

Table 1-1
Minnesota Board on Aging
Sources and Uses of Funds
Fiscal Years 2002 through 2005

| | 2002 | 2003 | 2004 | 2005 ⁽²⁾ |
|---|----------------------------|----------------------------|----------------------------|----------------------------|
| Sources: | | | | |
| Federal Receipts | \$19,142,674 | \$23,626,201 | \$20,706,477 | \$21,155,856 |
| General Fund Allocations ⁽¹⁾ | 5,743,040 | 5,874,612 | 5,904,222 | 5,964,797 |
| Dedicated Receipts | 195,515 | 190,685 | 186,550 | 183,737 |
| Balance Forward In | <u>29,194</u> | <u>61,510</u> | <u>68,843</u> | <u>66,826</u> |
| Total Sources | <u>\$25,110,423</u> | <u>\$29,753,008</u> | <u>\$26,866,092</u> | <u>\$27,371,216</u> |
| Uses: | | | | |
| Grants | \$22,891,361 | \$27,489,119 | \$24,497,486 | \$24,637,643 |
| Payroll | 1,655,079 | 1,757,279 | 1,897,799 | 2,089,105 |
| Printing and Advertising | 37,651 | 11,578 | 2,418 | 3,253 |
| Prof/Tech Services | 39,742 | 6,500 | 11,792 | 22,444 |
| Communications | 61,392 | 46,418 | 47,420 | 52,686 |
| Travel | 90,354 | 69,940 | 63,390 | 79,771 |
| Supplies | 52,505 | 16,013 | 38,688 | 20,105 |
| Equipment | 5,698 | 75,799 | 8,094 | 118,610 |
| Other Operating Costs | 27,937 | 26,945 | 28,478 | 28,232 |
| Agency Indirect Costs | 156,189 | 142,382 | 170,000 | 0 |
| Other | <u>31,005</u> | <u>42,192</u> | <u>33,701</u> | <u>56,186</u> |
| Total Expenditures | <u>\$25,048,913</u> | <u>\$29,684,165</u> | <u>\$26,799,266</u> | <u>\$27,108,035</u> |
| Balance Forward Out ⁽²⁾ | <u>61,510</u> | <u>68,843</u> | <u>66,826</u> | <u>263,181</u> |
| Total Uses | <u>\$25,110,423</u> | <u>\$29,753,008</u> | <u>\$26,866,092</u> | <u>\$27,371,216</u> |

Notes (1) The Board on Aging is allocated a part of the Department of Human Services state appropriations.

(2) These expenditure amounts are cash basis through July 31, 2005. The fiscal year 2005 balance forward out is the cash balance remaining as of July 31, 2005.

Source: Minnesota Accounting and Procurement System as of July 31, 2005.

Chapter 2. Federal Aging Grants

Chapter Conclusions

The staff assigned to the board established and maintained effective internal controls over compliance for the federal aging grant programs. They complied, in all material respects, with the requirements described in the federal Office of Management and Budget (OMB) Circular A-133 that could have a direct and material effect on the aging grants, except for certain federal reporting requirements. The staff did not complete a required financial status report by the April 30, 2005, due date. In addition, they were unable to provide documentation to support the amounts it submitted on the previous financial status report and on the maintenance of effort certification to the federal government.

Audit Objectives

Our audit of federal aging grants focused on the following questions:

- Did the staff assigned to the board establish and maintain effective internal controls over compliance for the federal aging grant programs?
- Did the staff assigned to the board comply with all laws, regulations, and grant provisions that could have a direct and material effect on the aging grants?

Our review of certain controls and compliance for the federal aging grants was limited to fiscal year 2005.

Background

The federal aging grants include the following three programs:

- Support Services and Senior Centers (CFDA 93.044): This grant program is to assist states in developing and implementing a comprehensive and coordinated community-based service delivery system for older Americans, which will assist them in leading independent and meaningful lives in their own homes and communities.
- Nutrition Services (CFDA 93.045): This grant program is to provide individuals aged 60 or older with nutrition services, including meals and nutrition education, either in the home or in a congregate setting.

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- Nutrition Services Incentive Program (CFDA 93.053): This grant program is to provide resource incentives to encourage and reward effective and efficient performance in the delivery of nutritious meals to older individuals.

Table 2-1 shows the federal aging grant expenditures by CFDA number for fiscal year 2004.

Table 2-1
Federal Aging Grants Expenditures
State Fiscal Year 2004

| Program Name | CFDA Number | Federal Expenditures |
|--------------------------------------|------------------------|---------------------------------|
| Support Services and Senior Centers | 93.044 | \$ 7,174,940 |
| Nutrition Services | 93.045 | 7,361,197 |
| Nutrition Services Incentive Program | 93.053 | <u>2,482,241</u> |
| Cluster Total | | <u>\$17,018,378</u> |

Source: Minnesota Financial and Compliance Report of Federally Assisted Programs for the year ended June 30, 2004.

Area Agencies on Aging

The board administers the federal Older Americans Act on behalf of the state. The act provides funding for senior meals and legal and ombudsman services, as well as limited funding for other state priorities. These services are targeted to those in the greatest social and economic need, with particular attention to low income minorities and those residing in rural areas.

The act created area agencies on aging to administer the services to older Americans. The area agencies must be designated and approved by the Board on Aging and are regional, multi-county agencies. The Board on Aging provides many of its services through grants to the area agencies. Each area agency has a governing board and an advisory committee of local citizens that guides its operations. In some cases, the advisory committee and governing board are one in the same. There are currently seven area agencies. The agencies have three roles:

- (1) Manage federal and state funding allocated to them by the board through the funding formula.
- (2) Provide information and assistance through the board's Senior LinkAge Line and senior outreach staff.
- (3) Develop, along with community partners, the home and community-based services needed to maintain people in their own homes.

Current Finding and Recommendations

- 1. The staff assigned to the Board on Aging did not complete a required federal report and could not provide documentation to support amounts on other reports.**

The staff did not comply with certain reporting requirements for the federal aging grants. They did not complete a required financial status report by the April 30, 2005, due date. In addition,

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the staff were unable to provide documentation to support the amounts submitted on the previous financial status report and on maintenance of effort certification to the federal government.

As of June 30, 2005, the staff had not completed the Financial Status (SF-269) Report for the period from October 1, 2004, through March 31, 2005. The report was due on April 30. Grant recipients use the semi-annual SF-269 to report the status of funds to the federal Department of Health and Human Services. In addition, the staff were unable to support the amounts reported on the previous SF-269 report, for the period April 1 through September 30, 2004. They were also unable to provide documentation for the maintenance of effort certification to the federal government for federal fiscal year 2003. Every year, the board is required to prepare and submit a certification to attest that it met the maintenance of effort requirement for the aging grants. In fact, when the 2003 maintenance of effort amounts were recalculated, they were different than those submitted on the certification. In July 2005, the staff submitted revised September 2004 SF-269 report and federal fiscal year 2003 maintenance of effort certification. They also submitted the required October 1, 2004, through March 31, 2005, SF-269 report and the 2004 maintenance of effort certification.

Recommendations

- *The staff should complete and submit required federal reports by the established due dates.*
- *The staff should maintain the documentation supporting all federal reports and certifications.*

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Chapter 3. Payroll Expenditures

Chapter Conclusions

The staff assigned to the Minnesota Board on Aging established and maintained effective internal control to ensure that payroll expenditures were accurately recorded in the accounting records and complied with applicable legal provisions and management's authorization. However, the staff did not review certain payroll reports to confirm that payroll transactions were correctly entered into the payroll system. For the items tested, the board complied with significant finance-related legal provisions, and expenditures were charged to the appropriate funding sources.

Audit Objectives

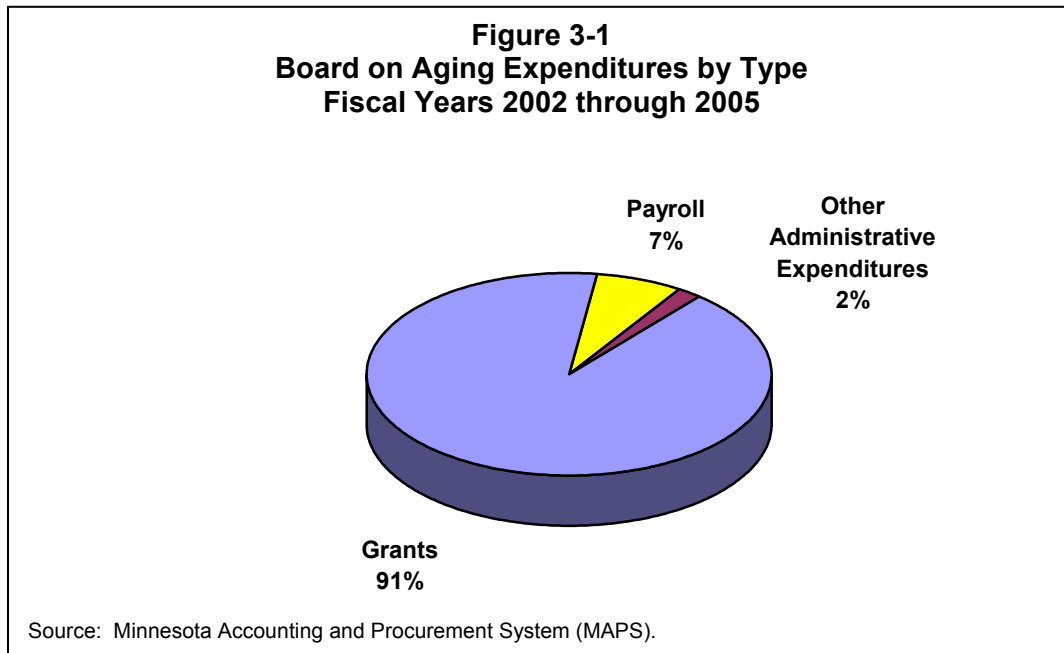
We focused our review of payroll expenditures on the following questions:

- Did internal controls over payroll provide reasonable assurance that payroll 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 staff assigned to the board comply with significant finance-related legal provisions?
- Were payroll expenditures charged to the appropriate funding sources?

Background

Payroll expenditures averaged about \$1.8 million annually for fiscal years 2002 through 2005. As shown in Figure 3-1, payroll and other employee benefit expenditures are the board's second largest cost category, comprising 6.8 percent of total expenditures. The Department of Human Services has approximately 55 full-time employees currently assigned to the board. Funding for payroll comes from both federal grant money and the state's General Fund. Payroll expenditures funded by federal grant monies must be supported by the standards regarding time distribution, as required by the federal Office of Management and Budget Circular A-87.

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Current Finding and Recommendation

2. Staff assigned to the Board on Aging did not review certain payroll reports to confirm the accuracy of its payroll transactions.

Staff did not perform an independent verification of biweekly payroll transactions. Department of Finance policy requires agencies to review the payroll register report and the payroll posting audit trail each pay period to verify that hours, amounts, lump sum payments, and other adjustments were accurately entered into the payroll system. Although the board is a part of the Department of Human Services, staff assigned to the board enter time into the state's payroll system before forwarding the timesheets to the department's payroll unit. The staff assigned to the board is, therefore, in the best position to verify the accuracy of the payroll inputs. To improve the effectiveness of the payroll verification process, someone assigned to the board who is independent of the payroll input function should conduct a review of payroll system output reports to help ensure that amounts processed agree with payroll amounts authorized by management.

Recommendation

- *The staff should perform an independent verification of payroll transactions by reviewing the payroll register and the payroll posting audit trail each pay period.*

Chapter 4. Administrative Expenditures

Chapter Conclusions

Staff assigned to the Minnesota Board on Aging did not follow applicable legal provisions and policies for some of its administrative purchases. They allowed one contractor to begin working before the contract was signed. They also did not approve some invoices before they were paid. They also were unable to provide documentation for certain purchases.

Audit Objectives

We focused our review of nonpayroll administrative expenditures on the following questions:

- Did internal controls over administrative expenditures provide reasonable assurance that these 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 staff assigned to the board comply with significant finance-related legal provisions, including federal cost principles, when applicable?

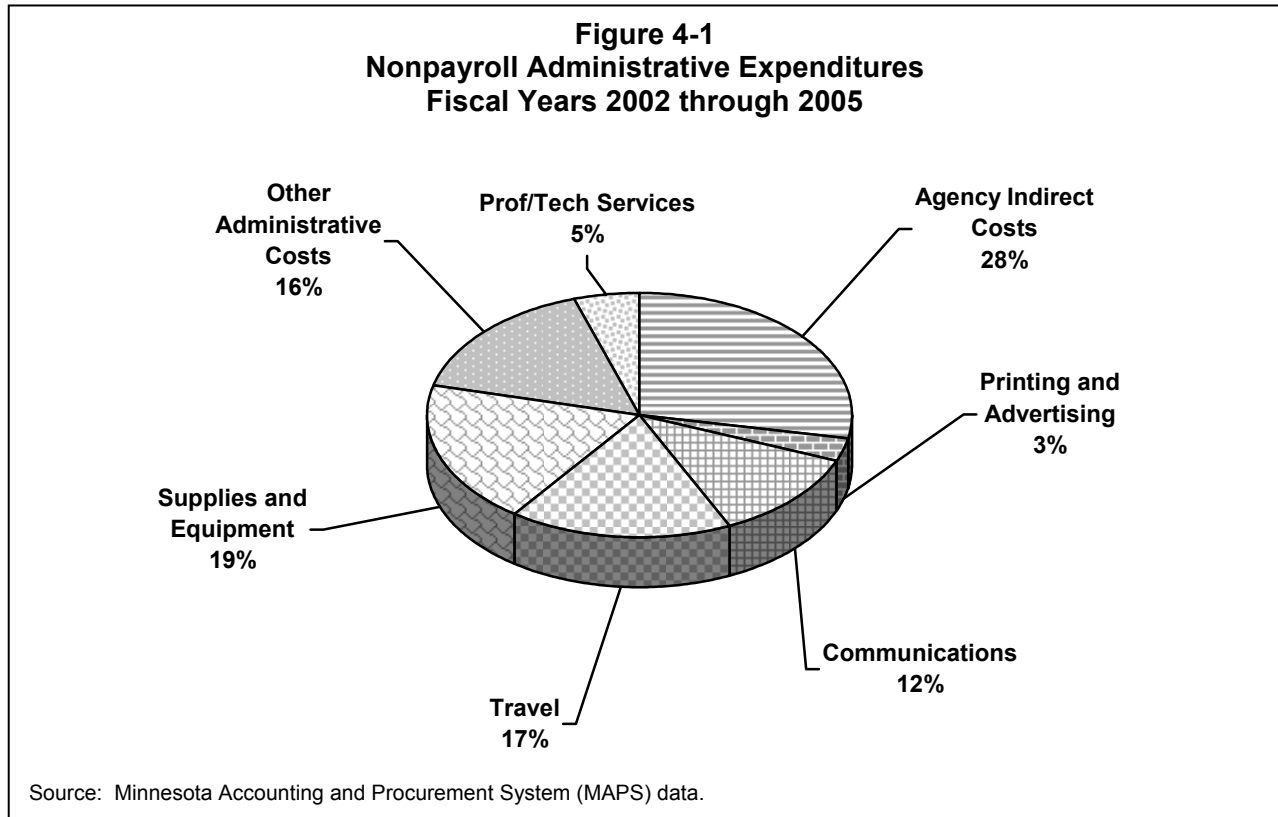
Background

The board expended approximately \$1.7 million on nonpayroll administrative costs during fiscal years 2002 through 2005. Administrative costs include rent, supplies and equipment, communications, agency indirect costs, travel, and other expenditures. The board relies on the Department of Human Services for purchasing, contracting, and payment processing. For substantial purchases of supplies and equipment, the staff assigned to the board sends an inter-office purchase requisition request to the Department of Human Services for processing. Human Services staff not assigned to the board choose the vendor and approve and pay the resulting bill.

Funding for administrative expenditures comes from both the state's General Fund and federal grants. Expenditures funded by federal grant money must be allowable according to Office of Management and Budget Circular A-87, "Cost Principles for State, Local, and Indian Tribal Governments." The federal government imposes a five percent cap on the amount available for payroll and nonpayroll administrative expenditures to be paid from federal aging grants. For federal fiscal year 2004, the cap was \$887,849.

Figure 4-1 shows the percentage of spending in the various nonpayroll administrative expenditure categories during the audit period.

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Current Findings and Recommendations

3. The staff assigned to the Board on Aging did not follow applicable legal provisions and policies for some of its administrative expenditure purchases.

The staff did not comply with applicable legal provisions and policies for some administrative purchases.

- The staff allowed one contractor to begin work before the annual plan was signed. This did not comply with *Minnesota Statutes*, Section 16C.08, subd 2, which does not allow a contractor to begin work before the contract is fully executed. The instance occurred in fiscal year 2004.
- The staff did not approve 6 of the 20 invoices we tested before paying the vendor. According to the Department of Finance's operating policy, every invoice should be reviewed and approved before the agency pays it. The approval should signify that goods and services have been received, and that the request has not been previously paid. The lack of formal invoice payment authorization increases the risk that the staff could inappropriately pay vendors for unsatisfactory or uncompleted work, make payments at incorrect amounts, or make duplicate payments.

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Recommendations

- *The staff should not allow vendors to begin work before the contracts are signed.*
- *The staff should formally approve all invoices before payment.*

4. The staff made an erroneous per diem payment to a board member.

The staff incorrectly paid a \$55 per diem to a board member. The staff paid the board member for three meetings from February 17, 2005, through April 15, 2005. However, there were only two board meetings held during that time period. After bringing the overpayment to their attention, the staff corrected it by not paying the member for the June 2005 board meeting.

Recommendation

- *The staff should ensure that requests for per diem reimbursements are consistent with attendance at board meetings before processing the payments.*

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August 10, 2005

James R. Nobles, Legislative Auditor
Office of the Legislative Auditor
Centennial Office Building
658 Cedar Street
St. Paul, MN 55155

Dear Mr. Nobles:

The enclosed material is the Minnesota Board on Aging response to the findings and recommendations included in the draft audit report of the financial and compliance audit conducted by your office for the four years ended June 30, 2005. It is our understanding that our response will be published in the Office of the Legislative Auditor's final audit report.

The Department of Human Services policy is to follow up on all audit findings to evaluate the progress being made to resolve them. Progress is monitored until full resolution has occurred. If you have any further questions, please contact David Ehrhardt, Internal Audit Director, at (651) 282-9996.

Sincerely,

/s/ Jim Varpness

Jim Varpness
Executive Director
Minnesota Board on Aging

Enclosure

cc: Jeanine Leifeld

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**Minnesota Board on Aging
Response to the Legislative Audit Report
For the Four Years Ended June 30, 2005**

Audit Finding #1

The staff assigned to the Board on Aging did not complete a required federal report and could not provide documentation to support amounts on other reports.

Audit Recommendation #1-1 and #1-2

The staff should complete and submit required federal reports by the established due dates. The staff should maintain the documentation supporting all federal reports and certifications.

Response to #1-1 and #1-2

We agree with the recommendations. Due to an unfortunate set of circumstances, the report in question was not completed in a timely manner, nor was the documentation available for a previously submitted report and certification. This report has now been submitted and the supporting documentation is for the previous report and certification is available. We believe that completing accurate and timely reports with supporting documentation will not be a problem in the future.

Person Responsible: Jim Varpness, Executive Director

Estimated Completion Date: Completed

Audit Finding #2

Staff assigned to the Board on Aging did not review certain payroll reports to confirm the accuracy of its payroll transactions.

Audit Recommendation #2

The staff should perform an independent verification of payroll transactions by reviewing the payroll register and the payroll posting audit trail each pay period.

Response to #2

We agree with the recommendation. We will be converting to the self service payroll time entry system which will eliminate the need to review the payroll register and payroll posting audit trail. We will then establish procedures to access and review the Self Service Time Entry Audit Report available through the Department of Finance.

**Minnesota Board on Aging
Response to the Legislative Audit Report
For the Four Years Ended June 30, 2005**

Person Responsible: Jim Varpness, Executive Director

Estimated Completion Date: September 30, 2005

Audit Finding #3

The staff assigned to the Board on Aging did not follow applicable legal provisions and policies for some of its administrative expenditure purchases.

Audit Recommendation #3-1 and #3-2

*The staff should not allow vendors to begin work before the contracts are signed.
The staff should formally approve all invoices before payment.*

Response to #3-1 and #3-2

We agree with the recommendations. We have established a process to assure contract work is not started prior to execution. The Department of Human Services' Internal Audits Office will review the problems associated with the invoices and recommend a course of action to mitigate the risk in this area.

Person Responsible: Jim Varpness, Executive Director

Estimated Completion Date: September 30, 2005

Audit Finding #4

The staff made an erroneous per diem payment to a board member.

Audit Recommendation #4

The staff should ensure that requests for per diem reimbursements are consistent with attendance at board meetings before processing the payments.

Response to #4

We agree with the recommendation. This occurrence was corrected the next month and an additional review step was added in the payment process to prevent this from happening in the future.

Person Responsible: Jim Varpness, Executive Director

Estimated Completion Date: September 30, 2005