



OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

FINANCIAL AUDIT DIVISION REPORT

Council on Black Minnesotans

Internal Control and Compliance Audit

July 1, 2005, through June 30, 2008

October 30, 2008

Report 08-30

FINANCIAL AUDIT DIVISION
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OFFICE OF THE LEGISLATIVE AUDITOR

State of Minnesota • James Nobles, Legislative Auditor

October 28, 2008

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Brother Michael Collins, Chair
Council on Black Minnesotans

Members of the Council on Black Minnesotans

Mr. Lester Collins, Executive Director
Council on Black Minnesotans

This report presents the results of our internal control and compliance audit of the Council on Black Minnesotans for the period July 1, 2005, through June 30, 2008.

Our fieldwork ended on July 18, 2008, and we discussed the results of the audit with the council's executive director and staff at that time. The audit was conducted by Jim Riebe, CPA (Audit Manager) and Jennifer Cooper (Auditor-in-Charge), assisted by auditor Lat Anantaphong.

We received the full cooperation of the council's staff while performing this audit.

/s/ James R. Nobles

/s/ Cecile M. Ferkul

James R. Nobles
Legislative Auditor

Cecile M. Ferkul, CPA, CISA
Deputy Legislative Auditor

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Report Summary

Conclusions

The Council on Black Minnesotans did not have adequate internal controls over its payroll process to ensure that it paid employees accurately, recorded payroll transactions properly, and complied with certain payroll policies and procedures.

Except for payroll, the council's internal controls generally were adequate to ensure that it safeguarded receipts and other assets, accurately paid vendors in accordance with management's authorization, produced reliable financial information, and complied with finance-related legal requirements.

For the items tested, the council generally complied with finance-related legal requirements over its financial activities, except for payroll.

Findings

- The council staff did not consistently review a key payroll report. In addition, staff did not review another key payroll report and did not control who had backup authorization to approve hours worked and leave taken. ([Finding 1, page 7](#))
- The council did not conduct performance reviews of the executive director, as required by statute. ([Finding 2, page 8](#))
- The council incurred expenses without adequate documentation to justify the public purpose of the expenses. ([Finding 3, page 9](#))

Audit Objectives and Scope

<u>Objectives</u>	<u>Period Audited</u>
• Internal Controls	July 1, 2005, through June 30, 2008
• Compliance	

Programs Audited

- Payroll and Other Administrative Expenditures
- Grant Activity

Background

The Council on Black Minnesotans exists 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 receives General Fund appropriations for its operations. In fiscal year 2008, the council's appropriations totaled \$325,000. Additionally, the council has acted as a fiscal agent for the African American Tobacco Network, receiving two grants for tobacco cessation efforts since 2002; one grant totaled about \$250,000, and another one received in 2006 and amended in 2008 totaled about \$481,000.

Council on Black Minnesotans

Agency Overview

The Legislature established the Council on Black Minnesotans in 1980.¹ The council states its mission is to provide all individuals of African descent with equal access to state services and programs. 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 to its constituents. Council activities include participating in tobacco control efforts to reduce tobacco use among the African American community, as well as coordinating the annual Martin Luther King Jr. holiday celebration.

The council consists of thirteen members appointed by the Governor and four non-voting members appointed by the Minnesota Senate and House of Representatives. Lester Collins is the executive director of the council.

The council receives General Fund appropriations to finance most of its operations. The council also acts as a fiscal agent for the African American Tobacco Network and received significant grant revenue for tobacco cessation efforts. General Fund appropriations totaled \$278,000 in fiscal years 2006 and 2007, and \$325,000 in 2008. During the audit scope, the council completed work on a grant totaling \$245,000 that it received from the Minnesota Partnership for Action Against Tobacco in 2002.² It also received another grant for tobacco control efforts from Blue Cross in 2006 that was amended in 2008 for a total of \$480,821. The council accounts for its grant and Martin Luther King celebration financial activities separately from its general operations.

Table 1 summarizes the council's revenues and expenditures for the period July 1, 2005, through June 30, 2008. Pursuant to statute, the Department of Administration provides administrative services to the council, which includes entering payroll, receipt, and disbursement transactions into the state's accounting and payroll systems.

¹ [Minnesota Statutes](#) 2007, 3.9225.

² In August 2006, the Minnesota Partnership for Action Against Tobacco changed its name to ClearWay Minnesota.

Table 1
Revenues and Expenditures
By Fiscal Year

<u>Revenues</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Grants ¹	\$ 29,943	\$ (1,075)	\$ 74,840
Gifts and Donations	<u>244</u>	<u>13,185</u>	<u>12,682</u>
Total	<u><u>\$ 30,187</u></u>	<u><u>\$ 12,110</u></u>	<u><u>\$ 87,522</u></u>
<u>Expenditures</u>			
Payroll	\$242,720	\$208,087	\$288,264
Space Rental, Maintenance, & Utilities	25,347	26,793	27,449
Supplies and Equipment ²	13,488	24,365	23,899
Professional/Technical Services Contracts	18,043	7,600	11,700
Other Operating Costs	11,674	12,089	20,915
Employee Development	690	3,786	3,823
Communication	7,328	6,834	7,243
Printing and Advertising	2,503	9,953	8,145
Travel	2,224	842	4,935
Other ³	<u>4,304</u>	<u>779</u>	<u>1,561</u>
Total	<u><u>\$328,321</u></u>	<u><u>\$301,128</u></u>	<u><u>\$397,934</u></u>

¹The council received its grant revenue from ClearWay Minnesota (formerly the Minnesota Partnership for Action Against Tobacco) in advance and its grant revenue from Blue Cross on a reimbursement basis over the term of the grant. Therefore, grant revenue could extend over multiple fiscal years. The negative revenue in 2007 resulted from a refund to ClearWay Minnesota of unspent grant funds.

²Supplies and equipment includes the coffee expenditures discussed in Finding 4.

³Other expenditures include computer and system services, statewide indirect costs, and state agency reimbursements.

Source: Minnesota Accounting and Procurement System as of July 14, 2008.

Objectives, Scope, and Methodology

Our audit of the Council on Black Minnesotans included grant revenue, payroll, and other administrative expenditures, including travel, and focused on the following audit objectives for the period from July 1, 2005, through June 30, 2008:

- Were the Council on Black Minnesotans' internal controls adequate to ensure that it safeguarded assets, accurately paid employees and vendors in accordance with management's authorization, produced reliable financial information, and complied with finance-related legal requirements?

- For the items tested, did the council comply with significant finance-related legal requirements over its financial activities, including state laws, regulations, contracts, and applicable policies and procedures?
- Did the council resolve prior audit recommendations pertaining to payroll, grants, and other administrative expenditures?³

To answer these questions, we interviewed agency staff to gain an understanding of the controls related to the council's financial operations. In determining our audit approach, we considered the risk of errors in the accounting records and potential noncompliance with finance-related legal requirements. We also analyzed accounting data to identify unusual transactions or significant changes in financial operations for further review. In addition, we selected a sample of financial transactions and reviewed supporting documentation to test whether the council's controls were effective and if the transactions complied with laws, regulations, policies, and grant and contract provisions.

We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives.

We used various criteria to evaluate internal control and compliance. We used as our criteria to evaluate agency controls the guidance contained in the *Internal Control-Integrated Framework*, published by the Committee of Sponsoring Organizations of the Treadway Commission.⁴ We used state laws, regulations, and contracts, as well as policies and procedures established by the departments of Finance and Employee Relations and Administration, along with the council's internal policies and procedures as evaluation criteria over compliance.

Conclusions

The Council on Black Minnesotans did not have adequate internal controls over its payroll process to ensure that it paid employees accurately, recorded payroll transactions properly, and complied with certain payroll policies and procedures. Except for payroll, the council's internal controls were adequate to ensure that it

³ Office of the Legislative Auditor, Financial Audit Division [Report 06-03, Council on Black Minnesotans](#), issued February 3, 2006.

⁴ The Treadway Commission and its Committee of Sponsoring Organizations were established in 1985 by the major national associations of accountants. One of their primary tasks was to identify the components of internal control that organizations should have in place to prevent inappropriate financial activity. The resulting Internal Control-Integrated Framework is the accepted accounting and auditing standard for internal control design and assessment.

safeguarded assets, accurately paid vendors in accordance with management's authorization, produced reliable financial information, and complied with finance-related legal requirements.

For the items tested, except for payroll, the council generally complied with finance-related legal requirements over its financial activities except that it needs to improve its compliance with statutory provisions related to performance evaluations of the executive director and council members attendance at council meetings.

The council resolved eight of the nine findings included in our prior audit report and partially resolved another finding. The council resolved prior findings related to the inconsistency between time and leave records and payroll expenditures. The council recovered previous overpayments to council members. The council also addressed findings related to noncompliance with contract and grant provisions and statutory requirements to notify the Governor's office when council members missed three consecutive meetings. The council also improved the accuracy of transactions recorded in the accounting system and paid invoices in a timelier manner. In addition, the council deposited donations in the state depository and accounted for the funds in the state's accounting system. However, the council did not consistently review a key payroll, as recommended in the prior audit report.

The following *Findings and Recommendations* further explain the exceptions noted above.

Findings and Recommendations

Prior Audit Finding Partially Resolved: The Council on Black Minnesotans' staff did not consistently review a key payroll report. In addition, staff did not review another key payroll report and did not control who had backup authorization to approve hours worked and leave taken.

The Council on Black Minnesotans' staff did not consistently review the payroll register to ensure the accuracy of payroll and personnel transactions processed in the state's payroll system. We selected 33 payroll registers for testing. The council could not locate two payroll registers and did not sign off on three of the registers to indicate review and approval. In addition, the Department of Administration (Administration) could not locate 9 of the 33 payroll registers. This indicated that Administration did not monitor whether the council reviewed and approved the payroll registers. (Administration provides administrative support to the council, which includes processing payroll and personnel transactions.) We reported this finding in our last two audit reports.⁵ The council's staff improved the review and authorization of the payroll registers since the last audit. However, because payroll represents a significant portion of the council's budget, consistency in reviewing this key report is critical to ensuring the accuracy and propriety of the council's payroll.

State policy requires agencies to review the payroll register to verify the accuracy of hours worked, rates of pay, and any adjustments.⁶ Without a final review of the payroll register, the council cannot ensure that Administration accurately processed its payroll transactions as authorized by the council.

The council had the following additional payroll weaknesses related to its use of the state's online time reporting system – self service time entry – which the council implemented in January 2006:

- The council did not review or resolve exceptions noted on the *Self Service Time Entry Audit Report*. This report, available for each pay period, identifies exceptions in the time reporting process. The report lists when someone other than the employee entered or modified the hours worked and when someone other than an employee's primary supervisor authorized the hours for payment. State policy requires the council to

Finding 1

⁵ Office of the Legislative Auditor, Financial Audit Division, *Council on Black Minnesotans, report 02-60*, issued September 12, 2002, and *report 06-03*, issued February 3, 2006.

⁶ Department of Finance and Employee Relations Policy & Procedure PAY0028.

review the exceptions in the report and document the steps it took to verify the integrity of the reported hours and supervisory authorizations.⁷

- The council did not control who had backup authorization to approve hours worked and leave taken in the online payroll system. Four state employees had inappropriate access as backup approvers in the online payroll system: One was a council employee with no payroll processing responsibilities; three worked for other agencies (the Department of Administration and the Department of Finance and Employee Relations) and either did not need access to the council's online payroll transactions or should have been specifically authorized by the council.

Recommendation

- *The council should improve internal controls over payroll and personnel activities by ensuring that council staff:*
 - *Consistently review and approve all biweekly payroll registers.*
 - *Review and resolve exceptions noted on the biweekly Self Service Time Entry Audit Report.*
 - *Eliminate inappropriate backup approvers in the self service time entry payroll system and work together with the Department of Administration to periodically monitor employee access to maintain appropriate control.*

Finding 2

The council did not conduct performance reviews of the executive director, as required by statute.

The council did not formally evaluate the executive director's performance during fiscal years 2006 through 2008. *Minnesota Statutes*⁸ require that all executive branch employees receive an annual performance evaluation. An annual review provides an opportunity for the council to consider how well the executive director has met past goals, address any concerns it may have about the executive director's performance, and establish future performance goals and objectives.

Recommendation

- *The council should evaluate the performance of the executive director on an annual basis, as required by statute.*

⁷ Department of Finance and Employee Relations Policy & Procedure PAY0017.

⁸ *Minnesota Statutes* 2007, 43A.20.

The council incurred expenses without adequate documentation to justify the public purpose of the expenses.**Finding 3**

The council was unable to substantiate the public purpose for the council's use of rental vehicles, coffee expenditures, and meals and refreshments in certain cases. Without this documentation, some of these expenses appeared unnecessary and unreasonable.

- **Rental Cars** - In fiscal year 2008, the council paid \$2,632 for car rentals. In some cases, the expenses seemed unreasonable. Four of fifteen rental periods extended five days or more, even though the related events were for a shorter duration. Seven of fifteen rentals recorded mileage that did not appear reasonable based on the location of the events attended by the executive director. For example, the council drove one rental car 732 miles over a seven-day period, but the council events were located in Minneapolis and surrounding areas.

Council staff rented vehicles to attend out-state board meetings, participate in the Martin Luther King celebration, and transport materials and staff to other conferences and festivals the council participates in throughout the community. Often, the council rented a car in connection with a council function for the executive director.

- **Coffee** - During fiscal years 2006 through 2008, the council paid \$2,843 (\$473 in fiscal year 2006, \$1,800 in fiscal year 2007, and \$570 in fiscal year 2008) to a vendor for daily coffee services provided at the council's office. The executive director explained that the council provided coffee daily because it often holds community events at the council office. Although some coffee expenses seemed reasonable, for example, council meetings and other events directly sponsored by the council, the overall expenses were unreasonable.
- **Meals and Refreshments** - The council also frequently provided meals and refreshments for council-sponsored events. During fiscal years 2006 through 2008, the council spent about \$13,503 for meals and refreshments. (This amount does not include an additional \$13,863 for meals or refreshments provided at council meetings, which appeared reasonable, and allowable expenses paid for from grant funds.) Council staff stated that providing meals and refreshments increased participation in council-sponsored events, and their services reached more of their constituents as a result.

State policy considers the use of state resources for coffee, meals, and refreshments to be "special expenses" and sets guidelines and limits about when a

state agency can incur them.⁹ In some cases, the policy allows expenses for refreshments but not for meals. Without sufficient documentation, the council could not demonstrate its compliance with state policies in all cases. In addition, the council did not establish sufficient oversight to ensure the amount of money spent on these discretionary meals and refreshments was appropriate overall.

Recommendation

- *The council should set documentation standards for car rental expenses. Also, it should set appropriate limits and monitor discretionary expenditures for coffee, meals, and refreshments to ensure that all expenditures are necessary and reasonable to the council's mission and comply with state policies.*

⁹ Department of Finance and Employee Relations Administrative Procedure 4.4.



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**COUNCIL ON BLACK MINNESOTANS' AUDIT RESPONSE
TO FINDINGS AND RECOMMENDATIONS
JULY 1, 2005, THROUGH JUNE 30, 2008**

Finding 1:

Prior Audit Finding Partially Resolved: The Council on Black Minnesotans' staff did not consistently review a key payroll report. In addition, staff did not review another key payroll report and did not control who had backup authorization to approve hours worked and leave taken.

Recommendations:

- *The council should improve internal controls over payroll and personnel activities by ensuring that Council staff:*
 - *Consistently review and approve all biweekly payroll registers;*
 - *Review and resolve exceptions noted on the biweekly Self Service Time Entry Audit Report;*
 - *Eliminate inappropriate backup approvers in the self service time entry payroll system and work together with the Department of Administration to periodically monitor employee access to maintain appropriate control.*

Council's Response:

The Council staff has diligently and consistently reviewed and filed its payroll register reports.

Also, the Department of Administration provides all payroll services for the Council. Neither the Council, nor the department of Administration was aware that the "Self Service Time Entry Audit Report" existed; in addition, this report was not apart of the Council staff training.

The Council had no prior knowledge before this current audit that there were three state employees within Administration who had inappropriate access as backup approvers in the

online payroll system. Although it may have been believed that the Council had an employee who had inappropriate access, current audit findings clarify that the only documented Council employee having the authority as a backup approver is the Sr. Office Administrative Specialist.

Council's Implementation Timeline

- The Executive Director and the Sr. Office Administrative Specialist will review effective immediately the by-weekly self service time entry report.*
- Effective January 1, 2008 we have successfully reviewed, signed reported and filed the payroll register.*
- The Council will be meeting with Administration on October 29, 2008; to review some standard reports to clarify and determine who has access to perform specific payroll responsibilities. Furthermore the Council has to approve the individual who Administration gives access to the Council's payroll system.*
- Administration is responsible to notify the Council of the removal of any individual from the designated approver list when or if they leave the department or state employment.*
- In addition the Council has established with the Department of Administration a new strategy for payroll registry reporting, which consist of forms not being received by Administration within a week of the report date – Administration will notify the Executive Director and Sr. Office Administrative Specialist via email*

Finding 2:

The Council did not conduct performance reviews of the Executive Director as required by statute.

Recommendation:

- The council should evaluate the performance of the executive director on an annual basis, as required by statute.*

Council's Response:

The Council recognizes that an annual review of the Executive Director provides an opportunity for the Council to consider how well the Executive Director has met the Agency's goals. It should be noted that this finding is partially due to board vacancies in conjunction with the appointment process. The new transitioning members felt they lacked the appropriate background information to fairly and comprehensively evaluate the Executive Director.

The Council's Executive Committee has been charged with the responsibility to set up the criteria and structure for the evaluation and performance review of the Executive Director on an annual basis, as required by statute.

Council's Implementation Timeline

--The Council's Executive committee is in the process of completing a letter of approval for the Executive Director's past performance and will provide Human Resources with the comprehensive performance evaluation by January 2009.

Finding 3:

The council incurred expenses without adequate documentation to justify the public purpose of the expenses.

Recommendation:

- The council should set documentation standards for car rental expenses. Also, it should set appropriate limits and monitor discretionary expenditures for coffee, meals, and refreshments to ensure that all expenditures are necessary and reasonable to the council's mission and comply with state policies.

Council's Response:

The Council believes that all expenses incurred under this finding have substantiated public purpose, relative to the Council's use of rental vehicles, coffee expenditures, meals and refreshments. Culturally, our history has been to provide meals at gatherings especially when the meetings or events take place during the dinner hour and where children or families are present. We take into consideration that by statute we have been called to serve; and that the largest part of our constituent base are not available and cannot participate in these gatherings during regular business hours.

Rental Cars – The Council acquires its vehicles through Enterprise Rental Car who is the State's designated agent. While there is **NO charge for mileage**, the Council's Executive Director has reported the designated public purposes and location of the events attended by the Executive Director, staff and Board.

The Council has shown that the practice of the rental car agency has on occasion been to provide a weekly rental rate, even when the Council rental was for a shorter time period. According to the rental agency the weekly charge is more cost-effective than the daily rate in a great majority of rental usages. The mileage designation in a number of instances has not been documented correctly by the rental agency. Example: As recent as its latest rental in September of 2008, the starting mileage listed on the contract was inaccurate and had to be readjusted.

The Council has inquired to the Department of Administration; and is waiting on a response regarding the ability to **rent vehicles from other vendors** who may charge a lower rate at any given time than the approved vendor, without subsequent reprimand or audit consequence.

Coffee - The Council provides coffee because it often holds community events at the Council's office and at off-site locations. The Council had anticipated budget constraints and

had the opportunity to purchase coffee, (creamer, sugar, & sugar substitutes), paper products (cups, paper towels, napkins), and serving utensils (plastic spoons, forks, knives) in bulk at a reduced price. During fiscal years 2006 through 2008, total expenditures on these items were \$2,843:

*\$ 473.00 - fiscal year 2006,
\$1,800.00 - fiscal year 2007, (bulk purchase)
\$ 570.00 - fiscal year 2008*

These bulk supplies have been used in large community gatherings, meetings of the regular board, committee meetings, and community events.

Meals and Refreshments – *The council also provided meals and refreshments for council-sponsored events and collaborative functions. For all events where the Council provides any type of meal/refreshment we also provide the receipt and a list of attendees as a standard procedure to the department of Financial Management Records. We are charged to not only involve and engage our constituents in public policy; but we are here to inspire and empower our constituents. We provide meals and refreshments to increase participation in council-sponsored events, and therefore our services have reached more of our constituents as a result. It should be noted that the expenses under this category includes not only the seven county metro but greater Minnesota.*

Council's Implementation Timeline

- The Council has prepared a standardized form that will be used in the process of rental car usage immediately, which does include beginning and ending mileage.*
- In accordance with recommendations of the financial management review office, the Council had terminated its previous coffee vendor contract, effective September 2008. However, the Council is concerned that purchases as recommended will result in greater expenditures.*
- The Council will more closely monitor discretionary expenditures for coffee, meals, refreshments, and serving utensils to ensure that all expenditures are necessary and reasonable to the Council's mission and comply with state policies.*
- Within this audit finding the finance committee of the Council's board will conduct quarterly reviews.*