



FINANCIAL AUDIT DIVISION REPORT

Department of Administration

Internal Controls and Compliance Audit

July 1, 2009, through March 31, 2012

*The audit scope included the use of money appropriated from the
Arts and Cultural Heritage Fund.*

October 25, 2012

Report 12-21

FINANCIAL AUDIT DIVISION

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OFFICE OF THE LEGISLATIVE AUDITOR

State of Minnesota • James Nobles, Legislative Auditor

October 25, 2012

Representative Michael Beard, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Spencer Cronk, Commissioner
Department of Administration

This report presents the results of our internal controls and compliance audit of the Department of Administration's Arts and Cultural Heritage Fund and General Fund grant expenditures for the period July 1, 2009, through March 31, 2012. We emphasize this was not a comprehensive audit of the department.

We discussed the results of the audit with the Department of Administration's staff on October 11, 2012. This audit was conducted by Jim Riebe, CPA, (Audit Manager) and Zach Yzermans, CPA (Auditor-in-Charge), assisted by auditors Emily Wiant and Daly Miskowiec.

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

Handwritten signature of James R. Nobles in black ink.

James R. Nobles
Legislative Auditor

Handwritten signature of Cecile M. Ferkul in black ink.

Cecile M. Ferkul, CPA, CISA
Deputy Legislative Auditor

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Report Summary

Conclusion

The Department of Administration's internal controls over grants from the Arts and Cultural Heritage Fund and General Fund were generally adequate to ensure that it safeguarded its financial resources, accurately paid grantees in accordance with management's authorization, created reliable financial data, and complied with significant finance-related legal requirements. For items tested, the Department of Administration generally complied with grant contracts, finance-related legal provisions, including requirements governing Arts and Cultural Heritage Fund grants, and statewide policies on grant administration. However, the department had some internal control weaknesses and noncompliance related to grant monitoring procedures.

Finding

- The Department of Administration did not consistently perform certain grant monitoring procedures, as required by state policies, and did not ensure grantees administered equipment grants in accordance with legal requirements. ([Finding 1, page 7](#))

Audit Objectives and Scope

Objectives

- Internal Controls
- Legal Compliance

Period Audited

July 1, 2009, through March 31, 2012

Programs Audited

- Administration and oversight of grants from the General Fund and the Arts and Cultural Heritage Fund
-

Department of Administration

Agency Overview

The Department of Administration provides a broad range of business management, administrative, and professional services to state agencies, local governments, and the public. One of its units, the Office of Grants Management, establishes statewide grants management policies and procedures for executive branch agencies and is responsible for increasing the availability of public information about state grant opportunities and resources. The office is also responsible for administering and monitoring the Department of Administration's grants. The department operates under the authority of *Minnesota Statutes* 2011, Chapter 16B, with *Minnesota Statutes* 2011, 16B.97 and 16B.98 governing the Office of Grants Management.

The department received appropriations for fiscal years 2010 through 2012 for grant programs from the following funds:

- General Fund - \$6.1 million for grants to support the general operations and equipment asset purchases of public television and noncommercial radio stations.
- Arts and Cultural Heritage Fund, one of the sales tax supported Legacy Funds¹- \$20.9 million for grants to organizations named in Minnesota Session Laws (legislatively-mandated) and \$2.7 million for competitive grants. With these appropriations, the department administered and distributed grants to the following organizations for arts and arts access initiatives, arts education, and arts and cultural heritage events and activities:
 - Television and Radio Stations – received grant funds to further the creation, production, acquisition, or distribution of programs that educate, enhance, or promote local, regional, or statewide items of artistic, cultural, or historic significance.
 - Museums and Zoos – Museums received grant funds to develop arts initiatives and to preserve Minnesota's history and cultural heritage; zoos used the money for program development.

¹ In 2008, Minnesota voters approved the Outdoor Heritage, Clean Water, Parks and Trails, and Arts and Cultural Heritage Amendment to the Minnesota Constitution, commonly referred to as the "Legacy Amendment." The amendment increased the state sales tax by three-eighths of 1 percent for a 25-year period beginning July 2009 and distributed the taxes among the Outdoor Heritage, Clean Water, Parks and Trails, and Arts and Cultural Heritage funds, which are collectively referred to as the Legacy Funds. The Arts and Cultural Heritage Fund receives 19¾ percent of the dedicated sales tax revenue, which must be used for arts, arts education, arts access, and preservation of Minnesota's history and cultural heritage.

- Other Grants – the Minnesota Film and Television Board and the Veterans Camps in Saint Louis County and Washington County received legislatively-mandated grants.

Table 1 summarizes Department of Administration’s grant expenditures from the Arts and Cultural Heritage Fund and General Fund for fiscal years 2010, 2011, and 2012.

Table 1
Department of Administration
General Fund and Arts and Cultural Heritage Fund Grant Expenditures
By Type of Recipient, Funding Source, and Fiscal Year
July 1, 2009, through March 31, 2012

Fund/Recipient Type	2010	2011	2012 ¹
<u>General Fund:</u>			
TV Stations	\$1,377,866	\$1,272,175	\$1,247,000
Radio Stations	636,569	591,787	546,000
Others ²	360	5,000	90
Total	<u>\$2,014,795</u>	<u>\$1,868,962</u>	<u>\$1,793,090</u>
<u>Arts and Cultural Heritage Fund:</u>			
TV Stations	\$2,772,000	\$3,465,000	\$1,227,308
Radio Stations	2,277,000	2,970,000	672,040
Museums	940,500	816,750	548,348
Zoos	292,859	240,347	53,497
Others ²	0	0	126,487
Total	<u>\$6,282,359</u>	<u>\$7,492,097</u>	<u>\$2,627,680</u>

¹Fiscal year 2012 shows grant expenditures through March 31, 2012.

²The department provided grants to the Minnesota Film and Television Board and the Veterans Camps in Saint Louis County and Washington County.

Source: Minnesota Accounting and Procurement System and Statewide Integrated Financial Tools.

In response to a complaint it had received, the Department of Administration reviewed the Minnesota Film and Television Board’s process to evaluate and award its competitive grants. In July 2012, the department concluded that the board had not complied with state statutes and notified the board that it would cancel about \$61,000 remaining for one of two grants from the Arts and Cultural Heritage Fund.

Objectives, Scope, and Methodology

Our audit of the Department of Administration’s grant expenditures from the Arts and Cultural Heritage Fund and General Fund focused on the following audit objectives for the period of July 1, 2009, through March 31, 2012:

- Were the department's internal controls adequate to ensure that it safeguarded its financial resources, accurately paid grantees in accordance with the department's authorizations, complied with finance-related legal provisions, and created reliable financial data?
- Did the department comply with significant finance-related legal requirements, including requirements governing Arts and Cultural Heritage Fund grants?

To meet the audit objectives, we gained an understanding of the Department of Administration's financial policies and procedures over grants. We considered the risk of errors in the accounting records and potential noncompliance with relevant legal requirements. We analyzed accounting data to identify unusual trends or significant changes in financial operations. We examined samples of financial transactions and reviewed supporting documentation to test whether the agency's controls were effective and if the transactions complied with laws, regulations, policies, and grant and contract provisions.

We also performed audit work at eight nonprofit organizations receiving Arts and Cultural Heritage Fund grants from the Department of Administration. Table 2 identifies these organizations and the amount of the department's grant expenditures to them in fiscal years 2010, 2011, and 2012 through March 31.

Table 2
Department of Administration
Arts and Cultural Heritage Fund Grant Expenditures
By Recipient and Fiscal Year
July 1, 2009, through March 31, 2012

Recipient	2010	2011	2012¹
Twin Cities Public Television	\$1,370,444	\$1,781,111	\$408,421
Minnesota Public Radio	1,138,500	1,485,000	\$335,756
Science Museum of Minnesota	445,500	445,500	215,558
Minnesota Children's Museum	247,500	123,750	332,790
Minnesota Film and TV Board	0	0	50,509
Como Park Zoo and Conservatory	171,484	174,659	53,497
KBEM Radio Station ²	103,500	135,000	19,731
KVSC Radio Station ³	103,500	135,000	3,436
Total	<u>\$3,580,428</u>	<u>\$4,280,020</u>	<u>\$1,419,698</u>

¹ Fiscal year 2012 shows grant expenditures through March 31, 2012.

² KBEM Radio is a program of Minneapolis Public Schools.

³ KVSC Radio is an educational public radio station licensed to Saint Cloud State University.

Source: Minnesota Accounting and Procurement System and Statewide Integrated Financial Tools.

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.² We used state laws, regulations, and contracts, as well as policies and procedures established by the departments of Management and Budget and the department's internal policies and procedures as evaluation criteria over compliance.

Conclusion

The Department of Administration's internal controls over grants from the Arts and Cultural Heritage Fund and General Fund were generally adequate to ensure that it safeguarded its financial resources, accurately paid grantees in accordance with management's authorization, created reliable financial data, and complied with significant finance-related legal requirements. For items tested, the Department of Administration generally complied with grant contracts, finance-related legal provisions, including requirements governing Arts and Cultural Heritage Fund grants, and statewide policies on grant administration. However, the department had some internal control weaknesses and noncompliance related to grant monitoring procedures.

The following *Finding and Recommendations* provide further explanation about the exception noted above.

² 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.

Finding and Recommendations

The Department of Administration did not consistently perform certain grant monitoring procedures, as required by state policies, and did not ensure grantees administered equipment grants in accordance with legal requirements.

Finding 1

The department had not reconciled advance payments to grantees' supporting documentation, such as purchase orders, receipts, or payroll records, for 14 of 16 grants we tested (including grants from the Arts and Cultural Heritage Fund), as required by state policy.³ The advance payments we tested ranged from \$8,000 to \$743,000. State policy required the department to reconcile all advance grant payments to quarterly progress reports within 12 months of issuance or within 60 days of the end of the grant period, whichever came first.⁴

In addition, the department did not perform monitoring visits for 11 of 16 grants we tested (all of which exceeded \$50,000). State policy required at least one monitoring visit per grant period for grants over \$50,000.⁵ A monitoring visit would allow the department to assess whether the grantee used the funds in accordance with the grant agreement.

Because of the lack of timely reconciliations and monitoring visits, the department did not identify the following grantee weaknesses:

- Three of the eight grantees we reviewed did not have internal controls adequate to ensure they submitted accurate financial information to the Department of Administration. One grantee could not show which specific costs it charged to the Arts and Cultural Heritage Fund grant in its fiscal year 2011 financial report.⁶ Two other grantees each submitted a report that did not reconcile to the underlying accounting records; one report overstated reimbursable costs by \$316 and the other report understated those costs by \$438. While these discrepancies were small, the risk exists for larger discrepancies to occur without detection.
- The department had not required grantees to submit sufficient documentation to support equipment purchased by radio and television grantees with General Fund grants. The documentation would help the department ensure the grantees used the funds appropriately and that the

³ The department advanced funds to all grantees in fiscal years 2010 and 2011 and began reimbursement payments in fiscal year 2012.

⁴ Minnesota Department of Administration, Office of Grants Management Policy 08-08.

⁵ Minnesota Department of Administration, Office of Grants Management Policy 08-10.

⁶ On October 12, 2012, the grantee provided us with a schedule showing the allocation of specific costs it charged to the grant. We did not audit this information.

state would be reimbursed in accordance with state statutes if the grantee sold the equipment within five years of purchase.⁷ In addition, one grantee reported that in fiscal years 2010 and 2011 it used about \$1,000 of the equipment portion of its grant (totaling about \$18,000) to purchase supply-type items, such as batteries, ink, and toner; these items may not have met grant requirements about the purpose of the grant. The seven grantees we tested used \$770,469 of their General Fund grants to purchase equipment.

Recommendations

- *The Department of Administration should complete financial reconciliations and monitoring visits of grantees, in compliance with state policies.*
- *The Department of Administration should require and verify that grantees' reports and reimbursement requests reconcile to underlying accounting records.*
- *The Department of Administration should require grantees to submit sufficient documentation for equipment purchased with equipment asset grants to allow the department to determine whether the items purchased met the definition of equipment and monitor that the grantees reimburse the state from the proceeds of the sale of any equipment purchased through the grants in accordance with state statutes.*

⁷ *Minnesota Statutes* 2011, 129D.155.



October 22, 2012

Mr. James R. Nobles
Office of the Legislative Auditor
Centennial Office Building, Room 140
658 Cedar Street
St. Paul, MN 55155-1603

Dear Mr. Nobles:

Thank you for the opportunity to convey our response to the internal controls and compliance audit of the Department of Administration's Arts and Cultural Heritage Fund and General Fund grant expenditures from July 1, 2009 through March 31, 2012. We wish to extend our appreciation to you and your staff for the audit work that was completed and the guidance provided. We are pleased that the agency's internal controls over grant expenditures were generally adequate to ensure we had safeguarded state resources.

The following details the corrective actions already taken or that will be taken to address this finding.

Finding:

The department did not consistently perform certain grant monitoring procedures, as required by state policies, and did not ensure grantees administered equipment grants in accordance with legal requirements.

Recommendation:

The department should complete financial reconciliations and monitoring visits of grantees, in compliance with state policies. The department should require grantees to submit sufficient documentation to support equipment purchased by radio and television grantees with General Fund grants.

Response:

The audit report identifies the need for enhanced grant monitoring and financial reconciliations. The department agrees with this finding and had developed and implemented a monitoring and financial reconciliation plan for fiscal years 2012 and 2013.

Fiscal Year 2012 monitoring and financial reconciliation visits were completed between March 26 and May 31, 2012; most of the reconciliations fell just outside the of the time period of this report. The department has also made additional improvements to its grants management process, such as changing to reimbursement-based grant payments in Fiscal Year 2013.

In addition, the department implemented new procedures for Fiscal Year 2013 radio equipment grants that require public radio grantees submit invoices for equipment purchase reimbursements. Fiscal Year 2013 public television equipment grants will also be amended by December 15, 2012 to require grantees to submit invoices supporting all equipment purchases. The department will also consider seeking legislative or industry guidance on the definition of equipment eligible for reimbursement as the current statutory language is not definitive.

The department plans to utilize the invoice information that grantees submit to compile a list of equipment purchases. Annually, in conjunction with required reporting, grantees will provide assurance that the equipment information is accurate.

Persons responsible: Laurie Beyer-Kropuenske and Jane Xiong

Target date for resolution:

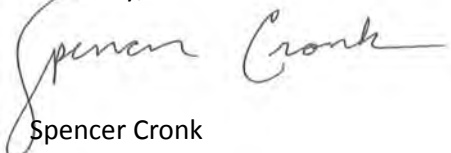
Monitoring and reconciliation in accordance with state policies: Completed

Amend public television grant agreements: December 15, 2012

Annual certification of equipment purchases: August 30, 2013

Again, we appreciate the opportunity to respond to the audit report. We value the work of your agency and the professionalism of your staff. We are committed to take actions to implement the recommendations identified in the report, including continued focus on complying with state grants management policies. If you have questions or need additional information, please contact [Lenora Madigan](#).

Sincerely,



Spencer Cronk
Commissioner