



Perpich Center for Arts Education

Internal Controls and Compliance Audit

July 2013 through March 2016

January 19, 2017
REPORT 17-03

Financial Audit Division

OFFICE OF THE LEGISLATIVE AUDITOR

STATE OF MINNESOTA

Office of the Legislative Auditor Financial Audit Division

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OFFICE OF THE LEGISLATIVE AUDITOR

STATE OF MINNESOTA • James Nobles, Legislative Auditor

January 19, 2017

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This report presents the results of our internal controls and compliance audit of the Perpich Center for Arts Education (center) for the period July 1, 2013, through March 31, 2016. The objectives of the audit were to determine whether the center had adequate internal controls over its financial management and complied with applicable legal requirements.

We discussed the results of the audit with the office's staff at an exit conference on December 22, 2016. This audit was conducted by Sonya Johnson, CFE, (Audit Manager), Kayla Borneman, CPA, CFE (Auditor-in-Charge), and assisted by auditors Scott Dunning, CPA, Gabrielle Johnson, CPA, Joe Kuschke, CPA, and Heather Rodriguez.

James R. Nobles
Legislative Auditor

Cecile M. Ferkul, CPA, CISA
Deputy Legislative Auditor



Table of Contents

	<u>Page</u>
Report Summary	1
Agency Overview	3
Financial Operations	3
Objectives, Scope, and Methodology	7
Conclusions	8
Findings and Recommendations	9
1. The Perpich Center for Arts Education put at risk nearly \$500,000 because it did not submit financial information for Crosswinds School to the Minnesota Department of Education as required by statute	9
2. The Perpich Center for Arts Education did not adequately review and document some payroll and human resource transactions, resulting in erroneous payments and unexplained deviations from policies and legal requirements	10
3. The Perpich Center for Arts Education did not comply with a state policy regarding the manual reduction of leave balances	13
4. Prior Finding Not Resolved: The Perpich Center for Arts Education did not have adequate internal controls over its capital asset inventory and purchases	14
5. Prior Finding Partially Resolved: The Perpich Center for Arts Education had weaknesses in its processes to collect, deposit, and accurately record student fee and performance receipts	16
6. The Perpich Center for Arts Education did not adequately control access to either the state's systems or an internal subsystem	17
7. The Perpich Center for Arts Education did not appropriately use some of its Arts and Cultural Heritage Fund appropriations	19
8. The Perpich Center for Arts Education did not always comply with state professional/technical services contracting policies	21
9. The Perpich Center for Arts Education did not always comply with legal requirements for the procurement of goods and services	22

Page

10. Prior Finding Not Resolved: The Perpich Center for Arts Education did not ensure that its employees followed the state's payroll policies related to time reporting.....	23
11. The Perpich Center for Arts Education incorrectly compensated teachers participating in a Minnesota Department of Education grant.....	24
12. The Perpich Center for Arts Education did not ensure the appropriateness of employee expense reimbursements	24
Agency Response.....	27

Report Summary

The Perpich Center for Arts Education (center) is an executive branch agency of the State of Minnesota. Its mission is to provide all Minnesota students the opportunity to develop and integrate their artistic and academic abilities to their highest potential. The center operates a public residential arts high school for approximately 200 eleventh and twelfth grade students who enroll from communities across the state. In July 2013, the center took over management of Crosswinds Arts and Science School (Crosswinds), a public, year-round arts and science integration school for sixth grade through tenth grade students. Effective July 2014, legislation officially conveyed management of the school to the center.¹

In addition, the center provides resources to educators and teaching artists throughout Minnesota to support and improve instructional practices in and through the arts. The center also operates the Perpich Arts Library, an information and resource center for students, faculty, staff, and the general public.

Conclusions

The Perpich Center for Arts Education did not have adequate internal controls over its financial management and did not always comply with the legal requirements we tested.

The center resolved one of the six audit findings from the prior audit report;² the center ensured that the Perpich Foundation filed proper reports with the Attorney General's Office.³ We were unable to determine the center's resolution of another finding about the need for board approval for certain contracts; our testing did not identify any contracts requiring board approval.

However, the center failed to resolve the other four prior audit findings. In this report, we repeat three findings related to capital asset inventory and purchases; receipt processing; and payroll. Our overall conclusion for this audit shows that the center did not resolve the remaining prior audit finding; it did not adequately assess its financial risks or monitor the effectiveness of its internal controls.

¹ *Laws of Minnesota* 2014, chapter 294, art. 2, sec. 20, subd. 2.

² Office of the Legislative Auditor's Financial Audit Division Report 12-18, *Perpich Center for Arts Education*, issued August 30, 2012.

³ The Perpich Foundation is a 501 (c) 3 nonprofit organization established to support and improve Minnesota's K-12 education in and through the arts. The foundation accomplishes its mission primarily through financial and administrative support of the Perpich Center for Arts Education.

Key Findings

- The Perpich Center for Arts Education put at risk nearly \$500,000 because it did not submit financial information for Crosswinds School to the Minnesota Department of Education as required by statute. (Finding 1, page 9)
 - The Perpich Center for Arts Education did not adequately review and document some payroll and human resource transactions, resulting in erroneous payments and unexplained deviations from policies and legal requirements. (Finding 2, page 10)
 - The Perpich Center for Arts Education did not comply with a state policy regarding the manual reduction of leave balances. (Finding 3, page 13)
 - Prior Finding Not Resolved: The Perpich Center for Arts Education did not have adequate internal controls over its capital asset inventory and purchases. (Finding 4, page 14)
 - Prior Finding Partially Resolved: The Perpich Center for Arts Education had weaknesses in its processes to collect, deposit, and accurately record student fee and performance receipts. (Finding 5, page 16)
 - The Perpich Center for Arts Education did not adequately control access to either the state's systems or an internal subsystem. (Finding 6, page 17)
 - The Perpich Center for Arts Education did not appropriately use some of its Arts and Cultural Heritage Fund appropriations. (Finding 7, page 19)
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Perpich Center for Arts Education

Agency Overview

The Perpich Center for Arts Education (center) is an executive branch agency of the State of Minnesota. Its mission is to provide all Minnesota students the opportunity to develop and integrate their artistic and academic abilities to their highest potential. The center consists of the following elements:

- **Perpich Arts High School.** The center operates a public residential arts high school in Golden Valley for approximately 200 eleventh and twelfth grade students who enroll from communities across the state.
- **Crosswinds Arts and Science School.** In July 2013, the center took over management of Crosswinds Arts and Science School (Crosswinds). Crosswinds is a public year-round arts and science integration school, located in Woodbury, for sixth grade through tenth grade. Effective July 2014, legislation officially conveyed management of the school to the center.⁴
- **Outreach and Professional Development.** The center provides resources to educators and teaching artists throughout Minnesota to support and improve instructional practices in and through the arts.
- **Perpich Arts Library.** The center operates the Perpich Arts Library, an information and resource center for students, faculty, staff, and the general public.

Minnesota Statutes 2016, 129C, provides the authority and responsibilities for the Perpich Center for Arts Education and its 15-member board of directors. Susan Mackert was the center's executive director from February 2010 through December 2016. The center has approximately 100 employees.

Financial Operations

General Fund appropriations provide the majority of the Perpich Center for Arts Education's funding. For fiscal years 2014 through 2016, the center received appropriations of about \$6.8 million per year. In addition, Crosswinds received general education, special education, and other funding like a regular school district.

⁴ *Laws of Minnesota* 2014, chapter 294, art. 2, sec. 20, subd. 2.

The center also received appropriations from the Arts and Cultural Heritage Fund, one of the sales tax supported Legacy Funds,⁵ and had other revenues, including grants and student fees. Payroll was the largest expenditure category.

Table 1 summarizes the center's sources and uses of financial resources for budget fiscal years 2014, 2015, and 2016.

As shown in Table 1, the center received appropriations of money from the Arts and Cultural Heritage Fund for the following projects:⁶

- **Arts Integration.** This project allowed the center to develop a training program for teachers about how to integrate arts into their classroom to increase student achievement. The center received appropriations for fiscal years 2014 and 2015 of \$795,000 and \$750,000, respectively.⁷ The center also carried forward \$345,037 from fiscal year 2013 for this project.
- **Turnaround Arts: Minnesota.** Through this project, the center supports low performing schools in using the arts as a tool for improvement. The center received an appropriation for fiscal year 2016⁸ of \$600,000, in addition to \$444,839 transferred from the State Arts Board in fiscal year 2015.

⁵ 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.

⁶ You can obtain more information about these projects at <http://www.legacy.leg.mn/projects>.

⁷ *Laws of Minnesota* 2013, chapter 137, art. 4, sec. 2, subd. 8.

⁸ *Laws of Minnesota* 2015, First Special Session, chapter 2, art. 4, sec. 2, subd. 9.

Table 1
Sources and Uses of Financial Resources
Budget Fiscal Years 2014 through 2016, as of November 17, 2016

Sources	Budget Fiscal Years		
	2014	2015	2016
General Fund Appropriations	\$ 6,773,000	\$ 6,773,000	\$ 6,872,000
Arts and Cultural Heritage Fund Appropriations			
• Arts Integration	795,000	750,000	0
• Turnaround Arts: Minnesota ¹	0	444,839	600,000
State Grants ²	1,963,217	2,303,542	1,936,162
Federal Grants	120,048	224,121	196,678
Student Fees	435,751	488,593	432,478
Rental Income ³	9,810	145,968	129,222
Other Revenue ⁴	53,815	31,063	95,451
Balance Forward In from Prior Year	790,593	453,748	572,827
Total Sources ⁵	<u>\$10,941,234</u>	<u>\$11,614,874</u>	<u>\$10,834,818</u>
Uses			
Payroll	\$8,224,532	\$8,386,961	\$ 7,735,909
Professional/Technical Services ⁶	657,990	780,700	1,551,716
Grants to School Districts ⁶	162,318	153,228	0
Supplies and Equipment	291,212	360,984	352,081
Other Operating Costs ⁷	531,345	289,801	312,835
Space Rental, Maintenance and Utilities	375,225	362,070	356,486
Other Expenditures and Obligations ⁸	151,437	466,692	501,993
Travel	93,427	114,640	112,214
Total Expenditures	<u>10,487,486</u>	<u>10,889,269</u>	<u>10,847,840</u>
Transfers Out ⁹	0	96,456	0
Balance Forward Out to Following Year	453,748	572,827	850,201
Appropriation Cancellations - General Fund	0	30,515	0
Total Uses ⁵	<u>\$10,941,234</u>	<u>\$11,614,874</u>	<u>\$11,773,435</u>

¹ The center received money for Turnaround Arts: Minnesota through a transfer from a 2015 Arts and Cultural Heritage Fund appropriation to the Minnesota State Arts Board.

² The center received grants from the Department of Education, primarily for state education aids for Crosswinds' operation.

³ The center received most of its rental income from a charter school that leased space in the Crosswinds building.

⁴ Other Revenue included sales of publications, private donations, interest earned, and workshop fees.

⁵ For fiscal year 2016, the center's uses of financial resources exceeded its sources because it had not received final school aid payments for Crosswinds from the Department of Education.

⁶ Beginning in fiscal year 2016, the center entered into contracts with school districts; instead of making grants to the districts.

⁷ Other operating costs included costs such as repairs and maintenance, teacher conferences, and bus transportation.

⁸ Other Expenditures and Obligations included printing and advertising, computer and system services, state centralized information technology services, communications, statewide indirect costs, employee development, and unpaid obligations totaling \$25,807 and \$75,394 for fiscal years 2015 and 2016, respectively.

⁹ The center transferred the remaining balance from the Turnaround Arts: Minnesota appropriation it received from the Minnesota State Arts Board back to the board.

Source: State of Minnesota's accounting system.

Tables 2 and 3 summarize the expenditures from the center's Arts and Cultural Heritage Fund appropriations for the Arts Integration and Turnaround Arts: Minnesota projects.

Table 2
Uses of Appropriations From the
Arts and Cultural Heritage Fund
Arts Integration
Budget Fiscal Years 2014 and 2015 as of November 17, 2016

Uses	Budget Fiscal Years		Total
	2014	2015	
Payroll	\$474,052	\$390,401	\$864,453
Professional/Technical Services	291,468	473,477	764,945
Travel	30,304	42,256	72,560
Other Operating Costs ¹	30,657	24,663	55,320
Supplies and Equipment	27,168	30,318	57,486
Other Expenditures ²	8,338	12,602	20,940
Space Rental and Utilities	2,005	13,323	15,328
Total	<u>\$863,992</u>	<u>\$987,040</u>	<u>\$1,851,032</u>

¹ Other operating costs include catering, room rental, and substitute teacher reimbursements for conferences the center provided to teachers around the state.

² Other expenditures included printing and advertising, state centralized information technology services, statewide indirect costs, and employee development.

Source: State of Minnesota's accounting system.

Table 3
Uses of Appropriations From the
Arts and Cultural Heritage Fund
Turnaround Arts: Minnesota
Budget Fiscal Years 2015 and 2016 as of November 17, 2016

Uses	Budget Fiscal Years		Total
	2015	2016	
Payroll	\$235,349	\$305,272	\$540,621
Professional/Technical Services	42,332	130,167	172,499
Travel	31,798	20,245	52,043
Other Operating Costs ¹	12,235	6,117	18,352
Supplies and Equipment	11,799	744	12,543
Other Expenditures ²	10,375	7,956	18,331
Space Rental and Utilities	4,495	3,166	7,661
Total	<u>\$348,383</u>	<u>\$473,667</u>	<u>\$822,050</u>

¹ Other operating costs include other miscellaneous operating expenditures.

² Other expenditures include printing, advertising, employee development, and state centralized information technology services.

Source: State of Minnesota's accounting system.

Objectives, Scope, and Methodology

Our audit of the Perpich Center for Arts Education for the period of July 1, 2013, through March 31, 2016, had the following objectives:

- Determine whether the Perpich Center for Arts Education had adequate internal controls over its financial activities.
- Determine whether the Perpich Center for Arts Education complied with specific legal requirements.
- Determine whether the Perpich Center for Arts Education resolved prior audit findings.⁹

To meet the audit objectives, we gained an understanding of the center's financial policies and procedures. 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 center's controls were effective and if the transactions complied with laws, regulations, policies, and contract provisions we tested.

We conducted the audit in accordance with generally accepted government auditing standards.¹⁰ 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 controls and compliance. We used, as our criteria to evaluate the center's controls, the guidance contained in the most recent edition of the internal control standards published by the U.S. Government Accountability Office.¹¹ We used state and federal laws, regulations, and contracts, as well as policies and procedures established by the departments of Management and Budget and Administration and the center's internal policies and procedures as evaluation criteria over compliance.

⁹ Office of the Legislative Auditor's Financial Audit Division Report 12-18, *Perpich Center for Arts Education*, issued August 30, 2012.

¹⁰ U.S. Government Accountability Office, *Government Auditing Standards*, December 2011.

¹¹ The Comptroller General of the United States, Government Accountability Office, *Standards for Internal Control in the Federal Government* (Washington D.C., September 2014). In September 2014, the State of Minnesota adopted these standards as the internal control framework for the executive branch.

Conclusions

The Perpich Center for Arts Education did not have adequate internal controls over its financial management and did not always comply with the legal requirements we tested.

The center resolved one of the six audit findings from the prior audit report;¹² the center ensured that the Perpich Foundation filed proper reports with the Attorney General's Office.¹³ We were unable to determine the center's resolution of another finding about the need for board approval for certain contracts; our testing did not identify any contracts requiring board approval.

However, the center failed to resolve the other four prior audit findings. In this report, we repeat three findings related to capital asset inventory and purchases; receipt processing; and payroll. Our overall conclusion for this audit shows that the center did not resolve the remaining prior audit finding; it did not adequately assess its financial risks or monitor the effectiveness of its internal controls.

The following *Findings and Recommendations* section provides further explanation about the exceptions noted above.

¹² Office of the Legislative Auditor's Financial Audit Division Report 12-18, *Perpich Center for Arts Education*, issued August 30, 2012.

¹³ The Perpich Foundation is a 501 (c) 3 nonprofit organization established to support and improve Minnesota's K-12 education in and through the arts. The foundation accomplishes its mission primarily through financial and administrative support of the Perpich Center for Arts Education.

Findings and Recommendations

The Perpich Center for Arts Education put at risk nearly \$500,000 because it did not submit financial information for Crosswinds School to the Minnesota Department of Education as required by statute.

Finding 1

On October 5, 2016, the Minnesota Department of Education notified the Perpich Center for Arts Education that it had revised Crosswind's special education aid entitlement for fiscal year 2015 from \$473,536 to \$0 because the department had not received audited financial data and had no basis to compute the school's final entitlement amount.¹⁴ In response, the center stated that it would provide the required financial data by November 30, 2016, nearly a year after the statutory due date.

The 2014 legislation¹⁵ that transferred the administration of Crosswinds School to the Perpich Center for Arts Education required the center to follow budget and accounting procedures required for school districts and that it report all data to the Department of Education in the form and manner required by the department.¹⁶ The center did not take timely action to determine how it would obtain and compile information to comply with these statutory reporting requirements. Instead, it missed the reporting deadlines for fiscal year 2015.

On December 17, 2015, the Department of Education notified the center that it had not received financial data about Crosswinds as required by statute.¹⁷ The department had not received unaudited fiscal year 2015 financial data by the September 15, 2015, deadline and had not received audited fiscal year 2015 financial data by the November 30, 2015, deadline. The letter also noted that an audited fiscal year 2015 financial statement was due to the department by December 31, 2015. The department asked the center to provide a plan for how the center would address these requirements. The center did not respond to this request.

On March 15, 2016, the department sent a second request to the center for the same information. The letter stated:

The school has not complied with these requirements for FY [fiscal year] 2015. No audited financial data has been received through a UFARS [Uniform Financial and Accounting Reporting System] submission, no external CPA [Certified Public Accountant] audited

¹⁴ In addition, the department informed the center that if it did not receive audited financial data for fiscal year 2016 by the upcoming December 31, 2016 deadline, it would similarly reduce the fiscal year 2016 special education aid entitlement from \$491,325 to \$0.

¹⁵ *Laws of Minnesota* 2014, chapter 294, art. 2, sec. 20, subd. 2.

¹⁶ *Minnesota Statutes* 2015, 129C.30.

¹⁷ *Minnesota Statutes* 2015, 123B.77.

financial statements have been received, and the school is not using an approved software vendor for the submission of financial data. *You were previously reminded of these requirements on December 17, 2015 . . . Please provide us with a plan regarding how you will address these requirements.*

In its March 18, 2016, response, center staff explained difficulties with converting financial data from the state's accounting system to the format required by the department and that it was working on finding an approved vendor that could convert the data. The letter also stated that the center was in the process of hiring a certified public accounting firm to audit the data.

In October 2016, having not received the required financial information, the department sent a third request for the information. This letter included the notification that the department had reduced the 2015 special education aid entitlement to zero, and the 2016 entitlement would be reduced to zero if the center did not provide the data by the statutory deadlines.

As of December 5, 2016, the center had submitted the audited 2015 financial data and the department was reviewing the information to determine the impact on its fiscal year 2015 special education entitlement. In addition, the center told the department that it would provide the fiscal year 2016 financial data by the December 31, 2016, deadline.

Recommendation

- *The Perpich Center for Arts Education should provide the Department of Education with the financial data for Crosswinds School by the deadlines required by statute.*

Finding 2

The Perpich Center for Arts Education did not adequately review and document some payroll and human resource transactions, resulting in erroneous payments and unexplained deviations from policies and legal requirements.

The Perpich Center for Arts Education did not adequately document the reasons for and authorizations of a variety of payroll and human resource transactions. Generally, state statutes, policies, and the state's agreements with its bargaining units require documentation to show the basis for and authorization of payroll and human resource decisions. The documentation is important to show consistent and compliant application of the statutes, policies, and bargaining agreements.

In addition, the center had errors in its calculations of various payroll and human resource transactions that it did not detect as part of its system of internal controls. A common internal control to ensure the accuracy of a calculation is the secondary review by someone independent of the original calculation. For the

calculation errors we identified, the center did not provide us with evidence that a secondary review had occurred.

The following bullets describe instances in our testing where the center lacked sufficient documentation:

- **Unexplained differences between employees' timesheets and actual compensation.** Nearly 25 percent of the payroll transactions we tested did not agree with the timesheets prepared by the employees and approved by the employees' supervisors. Our testing of 60 timesheets (totaling about \$134,000) identified 14 instances where the reported and approved hours did not agree with hours paid through the state's payroll system. The center lacked documentation for these differences, and payroll staff could not explain the payments. Without the documentation or explanation, we were unable to determine the accuracy of the payroll payments. State policy states that if payroll staff determine the need to adjust the hours or payroll amounts reported on an employee's approved timesheet, they must document "the reason for the adjustment and the date and pay period end date that it is processed."¹⁸
- **Withheld general increase.** The center did not have documentation to show why it did not give an employee a 3 percent general salary increase allowed by the employee's bargaining agreement.¹⁹ Without documentation, we were unable to determine whether the center had a legitimate reason to withhold the increase or if it was an error. Current payroll and human resource staff could not explain why the center withheld the increase. If the center had given the increase, it would have paid the employee nearly \$6,000 more for the period from July 2013 through August 2015, when the employee resigned.
- **Lack of documentation for a new employee's higher vacation accrual rate.** The center did not have documentation to show that it met certain bargaining agreement requirements when it set a higher than usual vacation accrual rate for the one new employee included in our sample.²⁰ Perpich allowed the employee to earn seven hours of vacation each pay period instead of four hours usually provided to new employees. Perpich staff told us the rate set for that employee likely reflected credit for the employee's previous time worked in the public sector. However, the center lacked documentation required by the bargaining agreement to demonstrate the employee's prior public sector service and the executive director's authorization for this discretionary adjustment.

¹⁸ Department of Management and Budget Policy PAY0023 and PAY0024.

¹⁹ Managerial Plan, July 1, 2013, through June 30, 2015, Chapter 14, Salary Administration.

²⁰ Agreement between the State of Minnesota and the Middle Management Association, July 1, 2015, through June 30, 2017, Article 8, Sec. 1. D.

The center also had errors in some payroll-related calculations:

- **Incorrect payments for extracurricular activity assignments.** The center paid two Crosswinds teachers \$50 less for extracurricular activity assignments than provided for in the applicable bargaining agreement.²¹ Extracurricular activities are assignments conducted in addition to a teacher's normal workload. The teachers' bargaining agreement provided \$350 for extracurricular activity assignments meeting twice a week; however, the center paid these teachers only \$300.
- **Incorrect and undocumented leave balance adjustments.** We tested 12 of the 23 leave balance adjustments the center made during our testing period. Six of the 12 adjustments required center staff to calculate the adjustment amount. The center had errors in all six of these adjustment calculations.

For five of the adjustments, center staff used spreadsheets containing inaccurate information (such as inaccurate hours and missing or incorrect pay periods) to calculate the amount of the adjustment. The errors resulted in the center over-adjusting one employee's vacation balance by 5.5 hours, and under-adjusting four employees' balances by a total of 30.75 hours.

In the sixth case, the center incorrectly reduced an employee's leave balance by 44 hours instead of by 40 hours. The center had intended the adjustment to offset 40 hours of vacation it had advanced to the employee when first hired, as allowed by the applicable bargaining agreement.²² The bargaining agreement directed the center to offset the advanced hours by the employee's accrued hours until it recovered the amount of the original advance.

- **New hire's pay rate exceeded amount authorized.** For one of the eight newly hired employees we tested, human resource staff entered a pay rate that was higher than the rate authorized by the human resources director. As a result, through March 2016, the employee received \$1,560 over the authorized amount.
- **Overpayment of manually calculated retroactive pay.** One of four employee lump sum retroactive payments we tested resulted in an overpayment of \$109 to the employee.

Payroll processing and compliance with state policies and employee bargaining agreements can be complicated and prone to error. Effective internal controls

²¹ State Residential Schools Education Association bargaining unit agreement.

²² Agreement between the State of Minnesota and the Middle Management Association, July 1, 2013, through June 30, 2015, Article 8B.

ensure the documentation of decisions and authorizations, along with the accuracy of calculations and data entry. Such controls may involve secondary reviews of transactions by someone who is independent of their calculations and processing. By not having effective internal controls, the center increased the risk that errors (such as those found in our audit) could occur without detection, and its payments to employees may not comply with state payroll policies, procedures, and bargaining unit agreements.

Recommendation

- *The Perpich Center for Arts Education should design, implement, and monitor the effectiveness of internal controls over human resource and payroll processes, including conducting secondary reviews of adjustment calculations and retaining documentation to support the accuracy, authorization, and integrity of these transactions.*

The Perpich Center for Arts Education did not comply with a state policy regarding the manual reduction of leave balances.

Finding 3

The center did not reduce an employee's vacation balance after the end date of an authorized extension that allowed the employee to use hours exceeding the maximum amount allowed by the employee's personnel plan.

Typically, employees' personnel plans and bargaining agreements limit the amount of vacation hours employees can accumulate; the bargaining agreement applicable to this employee required employees to reduce their vacation balances to 275 hours or less once during the fiscal year.²³ However, as happened in this case, the Department of Management and Budget can authorize an extension to the "once during the fiscal year" requirement and allow an employee more time to use the accrued vacation hours.

However, at the end of the extension period allowed by the Department of Management and Budget, December 31, 2013, the center did not reduce the employee's vacation balance to the 275 hour maximum, as required by state policy.²⁴

Recommendations

- *The Perpich Center for Arts Education should reduce the employee's leave balance to the required maximum.*

²³ Managerial Plan, July 1, 2013, through June 30, 2015, Chapter 4, Vacation Leave - Vacation Accumulation.

²⁴ Department of Management and Budget Policy PAY0026.

- *The Perpich Center for Arts Education should reduce leave balances appropriately in other instances where an employee has received an extension.*

Finding 4

Prior Finding Not Resolved: The Perpich Center for Arts Education did not have adequate internal controls over its capital asset inventory and purchases.

State and center policies²⁵ outline how the center should manage capital asset inventory and purchases. By following these policies, the center can ensure good internal controls over its capital assets at both of its locations. However, the center did not have adequate internal controls in this area. The center had the following weaknesses in its control structure:

- **Physical inventory not conducted.** The center had not completed a full physical inventory during fiscal years 2014, 2015, or 2016 (through March 2016). State policy²⁶ requires that an agency complete a physical inventory for capital assets at least every two years and whenever there is a change in its inventory coordinator. The center began a physical inventory in the summer of 2015 but did not complete the process.
- **Assets not recorded in the inventory system.** The center did not record in the asset management system 45 of 51, or 88 percent, of the assets we tested. In addition, the center did not record 7 of 18, or 39 percent, of the asset purchases we tested as part of a separate sample of expenditures. State policy²⁷ requires that agencies maintain a complete and accurate inventory record for all capital assets.
- **Inadequate support for asset disposals.** The center could not provide the required support²⁸ for the two asset disposals we tested. Center staff stated that they had disposed of a microwave and computer. However, staff were unable to substantiate that they had completed and submitted the appropriate documentation for these disposals as required. As a result,

²⁵ Department of Administration's *State of Minnesota Property Management Policy and User Guide*. The Perpich Center for Arts Education also had a capital assets policy – Administrative Policy 103.28, *Capital Asset Management*.

²⁶ Department of Administration's *State of Minnesota Property Management Policy and User Guide*, Section 4- Capital Assets, III B and III C-3.

²⁷ Department of Administration's *State of Minnesota Property Management Policy and User Guide*, Section 2-Property Management Reporting and Accountability Policy, *State Property Recordkeeping*, pages 2-3.

²⁸ Department of Administration's *State of Minnesota Property Management Policy and User Guide*, Section 2-Property Management Reporting and Accountability Policy, *Disposal of State Property*, pages 2-5.

the center was unable to provide assurance that its inventory was complete and accurately recorded.

- **No state asset identification tag affixed to asset.** The center did not have an asset tag affixed to 4 of 39, or 10 percent, of the assets we tested. State policy²⁹ requires that the agency affix a state asset identification tag to all capital assets and to assets that could be easily stolen.
- **Noncompliance with policy for stolen items.** The center did not submit a Stolen, Lost, Damaged or Recovered Property Report to notify the Office of the Legislative Auditor about the theft of a \$1,703 item in September 2014 as required by statute.³⁰ In addition to being a statutory requirement, reports of stolen items allow our office to assess whether a serious internal control weakness exists and whether the center has taken appropriate action to address the theft.

These internal control deficiencies created an unacceptably high risk of error, fraud, or theft occurring and going undetected.

Recommendations

- *The Perpich Center for Arts Education should perform a complete physical inventory in accordance with state policy.*
- *The Perpich Center for Arts Education should establish and maintain complete inventory records for its capital assets in accordance with state policy.*
- *The Perpich Center for Arts Education should retain proper support for capital asset disposals and properly identify assets as state property by using asset tags.*
- *The Perpich Center for Arts Education should submit the Stolen, Lost, Damaged or Recovered Property Report as required for all thefts of property.*

²⁹ Department of Administration's *State of Minnesota Property Management Policy and User Guide, Section 2-Property Management Reporting and Accountability Policy, State Property Recordkeeping*, pages 2-3.

³⁰ *Minnesota Statutes* 2014, 609.456, subd. 2.

Finding 5

Prior Finding Partially Resolved: The Perpich Center for Arts Education had weaknesses in its processes to collect, deposit, and accurately record student fee and performance receipts.

The center did not have adequate internal controls for its student fee receipts and performance ticket sales, which totaled \$1,327,839 and \$8,228, respectively, during fiscal years 2014, 2015, and 2016 (through March 2016). We noted the following weaknesses in the center's receipt processes:

- **Lack of separation of incompatible duties.** The center did not adequately separate incompatible duties within its receipt process. In general, the same person should not have more than one of the following duties: 1) the custody of assets; 2) the authorization or approval of related transactions affecting those assets; and 3) the recording or reporting of related transactions. Separating these duties helps to ensure that no employee can both perpetrate and conceal errors or fraud in the normal course of their duties. State policy³¹ requires that agencies either separate key duties so that no one employee is in control of an entire process or establish effective mitigating controls.

Four employees at the center's two locations had incompatible receipt processing duties, including collecting receipts, preparing the deposits, taking the deposits to the bank, and entering and editing information in both the state's accounting system and applicable agency subsystems.

- **Inadequate controls over performance ticket sales.** The center did not demonstrate it had adequate controls over the collection of receipts from student performances since it did not retain sufficient documentation to support receipts it collected. For instance, for one performance, the supporting documentation only included an amount written on an envelope, which was \$301 greater than the amount deposited in the bank. There was nothing to support why there were differences between the two amounts. In addition, the center did not reconcile tickets sold to the money it received, nor did it reconcile the receipts taken in from the performances to the bank deposit in order to ensure that it accounted for all receipts.
- **Inadequate settlement of student accounts.** The center did not take sufficient action to collect overdue student fees. The center did not refer 4 of 11 outstanding accounts in a timely manner to the Minnesota Department of Revenue's Collection Division, as required by state policy.³² The number of days beyond the 121-day past due time limit for referrals ranged from 93 to 731. As of August 2016, the center had not

³¹ Department of Management and Budget Policy 0602-01, *Recording and Depositing Receipts*.

³² Department of Management and Budget Policy 0504-01, *Debt Collection Process and Actions*.

referred an overdue account of \$1,700 from 2014. The center's staff stated they do not send outstanding accounts to collection until the student has graduated or withdrawn. The center also informs guardians that they have the entire school year to pay an invoice, which allows them the option to spread out payments during the school year. By allowing these debts to remain outstanding for such a lengthy period before referral to collections, the center reduced the likelihood that it will collect the outstanding debt.

These weaknesses in internal controls heightened the potential for errors or irregularities to occur without detection and provided an opportunity for manipulation of records and loss of funds.

Recommendations

- *The Perpich Center for Arts Education should separate incompatible duties in its receipts processes and establish mitigating controls when separation is not possible.*
- *The Perpich Center for Arts Education should institute controls over performance sale receipts, ensuring sufficient documentation exists to support actual sales and perform reconciliations between amounts collected and deposited in the bank.*
- *The Perpich Center for Arts Education should refer overdue student fees to the Department of Revenue in accordance with state policy.*

The Perpich Center for Arts Education did not adequately control access to either the state's systems or an internal subsystem.

Finding 6

The center did not adequately restrict access to the state's personnel, payroll, and accounting systems or to the subsystem it had for Crosswinds' cafeteria receipts.

The center had the following weaknesses in its administration of employee access to the systems:

- For the three employees with access to Crosswinds' automated cafeteria system, the center did not have documentation to show, 1) management's authorization for these employees to have access, or 2) the limits or extent of the access these employee had.³³ Without this documentation, we were unable to determine the appropriateness of the access given to employees

³³ In addition to the three employees, the center had an administrative account not assigned to a specific employee.

based on their assigned job duties. Although Crosswinds has changed the cafeteria subsystem since our testing, controlling and periodically monitoring employee access to a computerized system is an essential aspect in safeguarding assets against errors, theft, and fraud.

- For one business office employee, the center gave incompatible security access in the state's accounting system, which increased the risk of errors or inappropriate actions. The center did not develop a written plan identifying compensating controls for this employee's incompatible duties.

To protect the integrity of transactions and information on these systems, state policy requires state agencies to limit employee access "to only those systems, programs, applications, and data necessary for the individual to perform their job functions and responsibilities."³⁴ Additionally, state policy requires state agencies to avoid allowing employees to have access that allows them to perform incompatible duties; however, if that is not possible, the policy requires state agencies to implement and maintain controls designed to mitigate the risk that the employee can exploit the weakness.^{35, 36} Segregation of incompatible duties is a fundamental internal control designed to prevent, or timely detect, the processing of errors or irregularities in the accounting system.

Recommendations

- *The Perpich Center for Arts Education should understand, document, and periodically review the computer system access it provides to employees to ensure that access is authorized, appropriate, and necessary for the employees' duties.*
- *The Perpich Center for Arts Education should eliminate incompatible employee access to the accounting systems or develop, document, and monitor mitigating controls that provide independent review of the activity processed by those employees.*

³⁴ Department of Management and Budget Statewide Operating Policy 1101-07, *Security and Access*.

³⁵ Department of Management and Budget Statewide Operating Procedure 1101-07.2, *Compensating Controls*.

³⁶ While these policies specifically apply to access to the state's primary personnel, payroll, and accounting system, they are consistent with typical security access control expectations for any computer system used in state agency operations.

The Perpich Center for Arts Education did not appropriately use some of its Arts and Cultural Heritage Fund appropriations.**Finding 7**

In 2013 and 2015, the Legislature appropriated to the center \$2.1 million from the Arts and Cultural Heritage Fund for use in the center's Arts Integration and Turnaround Arts programs.³⁷ According to those appropriation laws, money appropriated from the Arts and Cultural Heritage fund "*may not be spent on activities unless they are directly related to and necessary for a specific appropriation.*"³⁸ In addition, the appropriation law for the Turnaround Arts Program required that money appropriated "*must be spent in accordance with the Minnesota Management and Budget's Guidance to Agencies on Legacy Fund Expenditure.*"³⁹

The center's use of money from these appropriations did not appear to comply with these legal requirements for these programs:

- **Inappropriate payroll charges.** Ten center employees charged their time to the Arts and Cultural Heritage Fund. Our sample contained five employees who charged their time to this fund. In one instance, the center charged an employee's entire payroll costs to the Arts and Cultural Heritage Fund even though the employee told us that only about 75 percent of the time was spent on activities related to the appropriations. The center did not ensure that funding records reasonably approximated actual work performed, resulting in an overcharge to the fund of about \$8,600 during the audit period.
- **Inappropriate expenses.** The center used \$7,423 from its Arts Integration appropriation from the Arts and Cultural Heritage Fund for three staff members (including the executive director) and one teacher and two students from another school to travel to Washington, DC in May 2014. The purpose of the trip was primarily to attend a talent show highlighting the program and announcing the center's role in administering the President's Turnaround Arts Program⁴⁰ in Minnesota. During the trip, the executive director also met with various Minnesota legislators over two days.

³⁷ *Laws of Minnesota* 2013, chapter 137, art. 4, sec. 2, subd. 8; and *Laws of Minnesota* 2015, First Special Session, chapter 2, art. 4, sec. 2, subd. 9.

³⁸ Aspects of this requirement have been controversial and subject to conflicting interpretations. For a more extended discussion of this legal requirement, see Office of the Legislative Auditor, Program Evaluation Division report, *The Legacy Amendment*, issued November 2011, pages 45-58 (St. Paul, MN).

³⁹ *Laws of Minnesota* 2015, First Special Session, chapter 2, art.4, sec. 2, subd 2.

⁴⁰ The *Turnaround Arts: Minnesota Project* supports low performing schools in using the arts as a tool for improvement.

We considered this use of money inappropriate because the purpose of the trip was not “directly related to or necessary for” the purposes of the Arts Integration Program. While attending the event seems directly related to the Turnaround Arts Program, it was not necessary for the center to administer the program in Minnesota, and it reduced the amount of money that was available to accomplish the program’s objectives. In addition, the appropriation for the Turnaround Arts Program was not available until July 2014.

- **Inappropriate allocation.** The center could not explain why it charged to the Arts and Cultural Heritage Fund the entire cost of a computer monitor (\$949) for an employee paid only 25 percent from that fund. Guidance regarding Legacy funds states that expenditures should be given consistent treatment, using the same logic in charging expenditures during the time of the grant.⁴¹ The center did not comply with this guidance because it did not allocate equipment used by an employee consistent with how it had allocated the employee’s salary, resulting in an overcharge to the Arts and Cultural Heritage Fund of \$712.
- **Expense overpayment.** The center did not always ensure that it accurately paid its invoices. The center processed a transaction where the invoice did not agree with the training registration documentation, resulting in an overpayment of \$108. This is not an appropriate use of Arts and Cultural Heritage Fund appropriations because the center paid an invalid expense using this restricted money. There did not appear to be a secondary review matching the training registration documentation and final invoice. State policy requires that agencies have controls to ensure that they process payments accurately.⁴²

Recommendations

- *The Perpich Center for Arts Education should restore \$16,842 to the Arts and Cultural Heritage Fund for those costs that were not directly related to and necessary for the appropriations.*
- *The Perpich Center for Arts Education should use Arts and Cultural Heritage Fund appropriations only for those activities that are directly related to and necessary for a specific appropriation.*

⁴¹ Management and Budget Guidance to Agencies on Legacy Fund Expenditure.

⁴² Department of Management and Budget Policy 0803-01.

The Perpich Center for Arts Education did not always comply with state professional/technical services contracting policies.**Finding 8**

The center did not always follow the policies and procedures established by the Department of Administration for its professional/technical services contracts.⁴³ Contracts for professional/technical services are for services that are intellectual in nature and include consultation, analysis, evaluation, prediction, planning, programming, or recommendation and result in the production of a report or completion of a task.⁴⁴ During the period from July 2013 through March 2016, the center's payments for professional/technical services totaled approximately \$2.4 million.

The center had the following weaknesses in the 36 professional/technical services contracts we tested, totaling \$277,000:

- **Noncompliance with annual plan limits.** In 2 of 23 annual plan contracts we tested, the center overpaid the contractors' amounts in excess of the state's \$5,000 annual plan limit by \$3,260 and \$8,670, respectively. The center paid one contractor \$8,260, and paid the second contractor \$13,670. State policy allows the center to use annual plan contracts for services expected not to exceed \$5,000 annually.⁴⁵ The center circumvented the competitive bidding process required for contracts exceeding \$5,000. The center expended \$440,000 on these types of contracts.
- **Inadequate authorization for final contractor payments.** The center did not timely complete final payment approval forms for 9 of 11 contracts as required. In eight of these instances, center staff completed and signed these forms in July 2016, because of our inquiries, and in the ninth instance, center staff backdated the authorization to correspond to the final payment on a 2015 contract.

A completed form authorizes final payment to the contractor.⁴⁶ Without the executive director's certification that the contractor fulfilled all contract terms prior to final payment, it is possible the center could pay the contractor for incomplete or deficient work.
- **Noncompliance with reporting requirements.** The center did not complete the statutorily required performance evaluation reports for three of four contracts we tested that exceeded \$25,000. State statutes require

⁴³ Department of Administration- *State Contracting Manual*.

⁴⁴ *Minnesota Statutes* 2015, 16C.08, subd. 1.

⁴⁵ Department of Administration- *State Contracting Manual*, Section 11: Annual Plans and Annual Plan Agreements.

⁴⁶ *Minnesota Statutes* 2015, 16C.08, subd. 2(10).

these evaluations include an appraisal of the contractor's overall performance and be completed within 30 days of contract completion.⁴⁷ In July 2016, center staff completed all three of these evaluation reports when the auditor noted that they were missing from the file. This was beyond the 30-day contract completion date.

The center did not comply with contracting laws and regulations when it deviated from the policies and procedures established by the commissioner of Administration for the supervision, control, and review of state contracts. Noncompliance increases the risk that the center is preventing fair competition, does not ensure appropriate contract completion, and is not reporting satisfaction or dissatisfaction with the contractor in a timely fashion.

Recommendation

- *The Perpich Center for Arts Education should comply with all requirements established by statute and the Department of Administration for professional/technical services contracts.*

Finding 9

The Perpich Center for Arts Education did not always comply with legal requirements for the procurement of goods and services.

The center did not create purchase orders for and did not properly authorize four purchases totaling \$18,693 in a sample of 82 expenditures we tested. As a result, the center had not set aside money in the state's accounting system for these purchases in advance of incurring the obligation as required by state statute⁴⁸ and policy.⁴⁹ By creating a purchase order, agencies set aside money in the state's accounting system to later pay for the goods. In addition, because center staff ordered goods without creating purchase orders, the center's business office staff did not review the purchases to ensure compliance with the state's purchasing requirements and ensure that obligations would not exceed available resources.

Recommendation

- *The Perpich Center for Arts Education should purchase goods and services in compliance with applicable statutes and state policies.*

⁴⁷ Minnesota Statutes 2015, 16C.08, subd. 4(c).

⁴⁸ Minnesota Statutes 2015, 16A.15, subd. 3(a).

⁴⁹ Department of Management and Budget Policy 0701-01, *Encumbrances*.

Prior Finding Not Resolved: The Perpich Center for Arts Education did not ensure that its employees followed the state's payroll policies related to time reporting.

Finding 10

The center did not ensure the integrity of its payroll transactions because it did not always review, monitor, or provide appropriate follow-up of those transactions. Because it provides the best control over the integrity of employees' payroll information, state payroll policy requires employees to prepare their own timesheets and supervisors, who have direct knowledge of employees' work, to review and approve timesheets.⁵⁰

When a state agency cannot achieve these ideal controls, the policy requires that they review applicable payroll audit reports to monitor instances where employees did not complete their own timesheets and where someone other than the direct supervisor approved employee timesheets.⁵¹ The policy also requires that agencies document their validation with employees and supervisors that timesheet payroll data was accurate.

To test payroll during the audit period, we selected eight pay periods during various times of the school year and tested from those pay periods a sample of timesheets for 60 employees. We noted the following weaknesses:

- In 6 of 60 timesheets tested, someone other than the employee completed the timesheet.
- In 3 of 60 timesheets tested, someone other than the supervisor with direct knowledge of the employees' work approved the timesheets for those employees.

However, the center lacked sufficient evidence to show that it adequately reviewed or followed up on the exceptions noted in the standard payroll audit reports for all eight of the pay periods we selected.

Finally, the center assigned two employees as backup approvers for their own timesheets. State policy states, "Employees should not approve their own timesheets."⁵²

Recommendations

- *The Perpich Center for Arts Education should have all employees complete and submit their own timesheets.*

⁵⁰ Department of Management and Budget Policy PAY0017.

⁵¹ Department of Management and Budget Policy PAY0017.

⁵² Department of Management and Budget Policy PAY0017.

- *The Perpich Center for Arts Education should have the employee's supervisor approve the employee's timesheet, and limit the occurrences of approval by someone other than the supervisor.*
- *The Perpich Center for Arts Education should document its review of the payroll system audit reports and follow-up of any exceptions on those reports.*
- *The Perpich Center should avoid allowing employees to approve their own timesheets.*

Finding 11 **The Perpich Center for Arts Education incorrectly compensated teachers participating in a Minnesota Department of Education grant.**

The center received a \$30,749 Teacher Development and Evaluation Pilot Program grant from the Minnesota Department of Education during the 2013-2014 school year. The purpose of the grant was to provide funding to school districts to test certain components of the state's teacher development and evaluation model and recommend changes. The grant budget included \$18,000 for \$600 payments to 30 teachers anticipated to participate in the program.

However, because only 23 teachers participated, the center allocated the \$18,000 among the 23 teachers, paying each of them \$782. Center staff were unable to provide documentation to show that the Department of Education approved these higher payments to the teachers. We think the center should have returned \$4,186 provided for in the grant but not needed due to lower than expected teacher participation.

Recommendation

- *The Perpich Center for Arts Education should work with the Minnesota Department of Education to determine if the higher payments were allowable costs under the grant or whether the center should repay the department \$4,186.*

Finding 12 **The Perpich Center for Arts Education did not ensure the appropriateness of employee expense reimbursements.**

The center's controls did not provide adequate assurance that it accurately reimbursed employees for legitimate business expenses. The center reimbursed employees approximately \$142,000 for these types of expenses. We tested a sample of 33 reimbursement claims, totaling \$17,806, and found that the center inappropriately paid approximately \$517 on several of them:

- The center processed both a duplicate payment and inappropriately reimbursed an employee for a nonbusiness-related item. These inappropriate payments totaled approximately \$436.
- The center inappropriately reimbursed approximately \$15 in mileage to an employee for a nonbusiness-related purpose.
- The center incorrectly reimbursed about \$66 to an employee because the business office incorrectly recorded an \$18 expense as \$84 in the accounting system.

State policy states that employees can receive reimbursement for allowable expenses that are necessary to conduct state business.⁵³ The policy also states that the agency is responsible for ensuring that it does not pay expenses that do not comply with state and agency policy and applicable bargaining unit agreements.

Recommendation

- *The Perpich Center for Arts Education should only reimburse its employees for allowable business expenses and record those transactions properly in the accounting system.*

⁵³ Department of Management and Budget Policy PAY0021.





PERPICH
TEACHING IN AND
THROUGH THE ARTS

January 10, 2017

Mr. James Nobles, Legislative Auditor
State of Minnesota
Office of Legislative Auditor
Room 140, Centennial Building
658 Cedar Street
St. Paul, MN 55155

Dear Mr. Nobles:

Thank you for the opportunity to respond to the results and recommendations of the Perpich Center for Arts Education (PCAE) internal controls and compliance audit covering the period from July 1, 2013 through March 31, 2016. We welcome the opportunity to review our processes in an ongoing effort to make sure they align with best practices.

It is worth noting that PCAE's efforts to maintain ongoing checks and balances is at times diminished by lack of financial resources to support adequate labor and other costs due to underfunding in the general fund.

Nonetheless, PCAE welcomes recommendations on ways that we can strengthen internal controls. PCAE is committed to working actively to tighten our internal procedures to maintain satisfactory controls in all areas identified to assure compliance with the requirements of your office and state policies.

My hope is that the legislature will look to this report as an opportunity to re-evaluate funding decisions for the agency in a way that will sustain our efforts to ensure continuity with the day-to-day operations of the agency.

The agency response to each of the findings is listed on the following pages.

Thank you for your time.

Sincerely,

/s/ Michael Zabel

Michael Zabel
Interim PCAE Program Director

Cc: Susan Mau Larson, PCAE Board Chair

Perpich Arts High School
Perpich Arts Outreach
Perpich Arts Library

6125 Olson Memorial Highway
Golden Valley, Minnesota 55422
perpich.mn.gov

Telephone: 763-279-4200
Toll Free: 800-657-3515
TTY/TDD (MN RELAY SERVICE): 711

Finding 1 – The Perpich Center for Arts Education put at risk nearly \$500,000 because it did not submit financial information for Crosswinds School to the Minnesota Department of Education as required by statute.

The Perpich Center for Arts Education (PCAE) submitted the required 2016 financial data to Minnesota Department of Education on December 30, 2016. The agency will continue to contract with a CPA firm to assist with producing reports to meet financial reporting deadlines.

Finding 2 - The Perpich Center for Arts Education did not adequately review and document some human resources transactions, resulting in erroneous payments and unexplained deviations from policies and legal requirements.

Unexplained differences between employees' timesheets and actual compensation.

The agency has a process in place that requires manager/supervisors to assure that employees' record and submit an accurate and timely record of hours worked and leave taken each pay period. Managers/supervisors verify employee time entries for accuracy and check eligibility and compliance with collective bargaining agreements and compensation plans if hours are recorded for overtime, shift differential etc. Managers/supervisors discuss any corrections with the employee and ask employee to make necessary corrections by his/her self. Time entry corrections made by managers/supervisors are documented in the comment section of the Self Service record and the employee is notified. New payroll staff member was hired in July 2016 follows up with managers/supervisors as needed to verify any discrepancies. A new HR Director with state government experience started in December 2016.

Withheld general increase

Human resources will assure that general salary increases are processed and documented in accordance with the provisions of respective collective bargaining agreements.

Lack of documentation for a new employee's higher vacation accrual rate.

Human resources has developed a process to verify requests and supporting documentation for adjustment to length of service for accrual purposes in accordance with collective bargaining agreements and plans.

Incorrect payments for extracurricular activity assignments.

Managers/supervisors review and approve submitted claim forms for extracurricular activity assignments to ensure employees' request the correct amounts in accordance with the stipulations of the collective bargaining agreement. Going forward, approved claim forms will be submitted to payroll for review prior to processing. The agency paid the amount submitted by the employees and approved by their supervisors.

Incorrect and undocumented leave balance adjustments.

Leave balance adjustments were made to correct noted errors. PCAE Administrative Management Director will review calculations prior to adjustments being processed to assure accuracy of data.

New hire's pay rate exceeded amount authorized.

Additional new hire paperwork documenting salary decision was located after fieldwork was completed. Human resources will assure that paperwork is filed and any changes are properly documented, initialed and dated.

Overpayment of manually calculated retroactive pay.

Employee retroactive pay is automatically calculated in the SEMA4 payroll system based on hourly rate changes entered by human resources. Payroll staff will review the system generated lump sum amounts to verify accuracy. Payroll staff will coordinate with Central Payroll if discrepancies are noted.

Finding 3 – The Perpich Center for Arts Education did not comply with a state policy regarding the manual reduction of leave balances.

After consultation with Minnesota Management and Budget, labor relations and central payroll, employee's leave balance was reduced in compliance with the extension memo and state policy. The agency reviewed all other instances and took corrective action.

Finding 4 – Prior Finding Not Resolved: The Perpich Center for Arts Education did not have adequate internal controls over its capital asset inventory and purchases.

The agency was 100% compliant but fell behind due to turnover in the finance department. We have trained new staff and are currently conducting a complete physical inventory of assets. The agency will assure that complete inventory records are maintained and new assets are identified with asset tags. Asset disposal forms will be submitted to Department of Administration. Tags have been affixed to items identified in the report. The center will continue to work with MNIT staff to ensure technology items are identified and receive asset tags. The center will notify the Office of Legislative Auditor of thefts and lost items.

Person Responsible: Mike Zabel

Estimated Completion Date: December 29, 2017

Finding 5 - Prior Finding Resolved: The Perpich Center for Arts Education had weaknesses in its processes to collect, deposit, and accurately record student fee and performance receipts.

Lack of separation of compatible duties.

The Perpich Center for Arts Education has conducted a review of incompatible duties. Revisions to existing procedures have been implemented to address separation of incompatible duties. Minnesota Management and Budget Policy 0602-01 has been reviewed with affected employees.

Inadequate controls over performance ticket sales.

The Perpich Center for Arts Education employees who collect receipts at student performances have been re-educated and provided copies of written procedures for ticket sales. A separate reconciliation is conducted to ensure all receipts received are deposited and supporting documentation for differences (if applicable) are recorded. Minnesota Management and Budget Policy 0504-01 was reviewed.

Inadequate settlement of student accounts.

Overdue student accounts have been referred to the Department of Revenue for collection. Minnesota Management and Budget Policy 0504-01 has been reviewed with employees who have responsibility to manage student accounts.

Finding 6 - The Perpich Center for Arts Education did not adequately control access to either the state's systems or an internal subsystem.

The Perpich Center for Arts Education currently reviews access, security roles for SEMA4/SWIFT annually. In addition, Perpich Center for Arts Education will review access to subsystems at both schools at the same time. The agency will review and apply the new conflicting roles data which was released by Minnesota Management and Budget on 01/01/2017 when adding new users or new security roles to current users.

Person Responsible: Mike Zabel and Ekpe Akpan
Estimated Completion Date: February 28, 2017

Finding 7 –The Perpich Center for Arts Education did not appropriately use some of its Arts and Cultural Heritage Fund appropriations.

Payroll corrections were done and position funding data was updated for the manager who has employee positions with multiple funding streams to ensure that funding breakdown is correctly allocated in the employee's payroll record and reflected on the job description. We have also reviewed funding sources for various expenditures with this manager.

The Perpich Center for Arts Education is working with Minnesota Management and Budget to transfer expenses in Arts Cultural Heritage Fund to the General Fund for 75% of one computer monitor, expenses to attend the White House Turnaround Arts event and \$108 for a day's arts integration workshop.

Person Responsible: Mike Zabel
Estimated Completion Date: June 30, 2017

Finding 8 – The Perpich Center for Arts Education did not always comply with state professional/technical services contracting policies.

Noncompliance with annual plan limits.

Finance has created a spreadsheet to track substitute teacher invoices to ensure no substitute exceeds annual plan limits.

Inadequate authorization for final contractor payments.

Authorization forms are being completed and authorized prior to final payment being processed.

Noncompliance with reporting requirements.

Reports have been submitted and will be completed by the contract coordinator. The Perpich Center for Arts Education will take appropriate measures to assure compliance with all requirements established by statute and the Department of Administration for professional/technical services contracts.

Finding 9 – The Perpich Center for Arts Education did not always comply with legal requirements for the procurement of goods and services.

The Perpich Center for Arts Education have taken appropriate measures to ensure purchase of goods and services are in compliance with applicable statutes and state policies.

Finding 10 – Prior Finding Not Resolved: The Perpich Center for Arts Education did not ensure that its employees followed the state’s payroll policies related to time reporting.

The agency has in place procedures to verify time sheet entry and approval. The Perpich Center for Arts Education is engaged in on-going training for managers/supervisors and employees. Human resources will work with Managers/supervisors to educate employees on their responsibility to record and submit an accurate record of hours worked in Self Service time entry record. Payroll currently sends out email reminders to all employees on a bi-weekly basis reminding employees to complete their timesheets.

Back-up payroll approvers will approve payroll only in the absence of the primary approver. Payroll will forward timesheets approved by back-up (secondary approver) to primary manager/supervisor for review and to double check for accuracy.

To maintain integrity of employee payroll, managers/supervisors will work with human resources to continually educate and hold employees accountable regarding expectations to complete their individual timesheet every pay period.

Managers/supervisors will consistently place a notation in the comment section of Self Service indicating timesheet was not completed by employee. Alternate approvers have been identified in specific instances to avoid allowing employees to approve their own timesheets.

Finding 11 – The Perpich Center for Arts Education incorrectly compensated teachers participating in a Minnesota Department of Education grant.

The agency disagrees with this finding. The agency was awarded \$30,749 Teacher Development and Evaluation Pilot Program grant from the Minnesota Department of Education for 2013-2014 school year. Upon review with Minnesota Department of Education, it was determined that payments to teachers were allowable costs under the grant. The staff at Minnesota Department of Education reviewed the budget submission and reimbursement claims. Minnesota Department of Education

reimbursed the agency a total of \$22,178, which reflects a net savings of \$8,571 to Minnesota Department of Education.

Finding 12 - The Perpich Center for Arts Education did not ensure the appropriateness of employee expense reimbursements.

Managers/supervisors will complete a thorough review of each submitted claim which are to be accompanied with receipts. Whenever practical, agency purchasing cards will be utilized to avoid out of pocket expenses by the employee and eliminating potential duplicate claims. The agency will engage Minnesota Management and Budget to assist with implementing business expense processing in Self Service.

For more information about OLA and to access its reports, go to: www.auditor.leg.state.mn.us.

To offer comments about our work or suggest an audit, evaluation, or special review, call 651-296-4708 or email legislative.auditor@state.mn.us.

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