



Minnesota State Academies for the Deaf and the Blind

Performance Audit

November 2024

Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

Financial Audit Division

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November 12, 2024

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Minnesota State Academies for the Deaf and the Blind

Terry Wilding, Superintendent
Minnesota State Academies for the Deaf and the Blind

This report presents the results of our performance audit of the Minnesota State Academies (MSA) for the Deaf and the Blind for the period July 2021 through December 2023. The objectives of this audit were to determine if MSA had adequate internal controls over selected financial activities and complied with significant finance-related legal requirements.

This audit was conducted by Jordan Bjonfald, CPA (Audit Director); and auditors Joseph Anderson; Gabrielle Gruber; Andrea Hess; Crystal Nibbe, CFE; and Emily Wiant.

We received the full cooperation of MSA staff while performing this audit.

Sincerely,



Judy Randall
Legislative Auditor



Lori Leysen, CPA
Deputy Legislative Auditor



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Introduction

The Minnesota State Academies (MSA) are two public schools, the Minnesota State Academy for the Blind and the Minnesota State Academy for the Deaf, that provide education and other services to students who are blind, visually impaired, deaf, or hard of hearing, including those with multiple disabilities. MSA utilizes the same educational standards and expectations as other school districts in the state.

In this audit, we examined MSA's internal controls. Internal controls are the policies and procedures management establishes to govern how an organization conducts its work and fulfills its responsibilities. A well-managed organization has strong controls across all of its internal operations. If effectively designed and implemented, controls help ensure, for example, that inventory is secured, computer systems are protected, laws and rules are complied with, and authorized personnel properly document and process financial transactions.

Minnesota Law Mandates Internal Controls in State Agencies

State agencies must have internal controls that:

- Safeguard public funds and assets and minimize incidences of fraud, waste, and abuse.
- Ensure that agencies administer programs in compliance with applicable laws and rules.

The law also requires the commissioner of Management and Budget to review OLA audit reports and help agencies correct internal control problems noted in those reports.

— **Minnesota Statutes 2023, 16A.057**

Auditors focus on internal controls as a key indicator of whether an organization is well managed. In this audit, we focused on whether MSA had controls to ensure that it safeguarded state resources; appropriately spent state funds; and accurately paid its vendors, grantees, and employees in compliance with state and federal laws.



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Report Summary

Conclusion

The Minnesota State Academies generally did not comply with the significant finance-related legal requirements we tested and generally did not have adequate internal controls. We identified a number of instances of noncompliance and internal control weaknesses. The list of findings below and the full report provide more information about these concerns.

Findings and Recommendations

Finding 1. The Minnesota State Academies' site councils did not meet in accordance with their bylaws. (p. 12)

Recommendations

- The Minnesota State Academies' site councils should meet in accordance with their bylaws.
 - The Minnesota State Academies' governing board should ensure that the site councils meet in accordance with their bylaws.
-

Finding 2. Prior Audit Finding Unresolved. The Minnesota State Academies did not monitor the financial and legal activities of its affiliated foundations, as required by the contracts. (p. 14)

Recommendations

- The Minnesota State Academies should monitor the financial and legal activities of its affiliated foundations, as required by the contracts.
 - The Minnesota State Academies should strengthen its internal controls to ensure it monitors the financial and legal activities of its affiliated foundations.
-

Finding 3. The Minnesota State Academies did not process payroll in accordance with state policy. (p. 19)

Recommendations

- The Minnesota State Academies should process payroll in accordance with state policy.
 - The Minnesota State Academies should strengthen its internal controls to ensure it processes payroll in accordance with state policy.
-

Finding 4. The Minnesota State Academies did not always purchase goods or services in accordance with state policy. (p. 26)

Recommendations

- The Minnesota State Academies should purchase goods or services in accordance with state policy.
 - The Minnesota State Academies should strengthen its internal controls to ensure it complies with state policy.
-

Finding 5. The Minnesota State Academies superintendent approved his own travel. (p. 28)

Recommendation

The Minnesota State Academies should require someone other than the superintendent to approve his travel.

Finding 6. The Minnesota State Academies did not always comply with state policy when paying for the superintendent's travel expenses. (p. 29)

Recommendations

- The Minnesota State Academies should pay travel expenditures only in accordance with state policy.
 - The Minnesota State Academies should collect, from the superintendent, the state money used for personal travel.
 - The Minnesota State Academies should strengthen its internal controls to ensure it pays for travel in accordance with state policy.
-

Finding 7. The Minnesota State Academies did not document that it managed its imprest cash accounts in accordance with its policy. (p. 34)

Recommendations

- The Minnesota State Academies should document that it manages its imprest cash accounts in accordance with its policy.
 - The Minnesota State Academies should strengthen its internal controls to ensure it manages its imprest cash accounts in accordance with its policy.
-

Finding 8. The Minnesota State Academies did not manage its assets in accordance with state policy and did not keep an accurate record of its physical inventory. (p. 35)

Recommendations

- The Minnesota State Academies should manage its assets in accordance with state policy and keep an accurate record of its physical inventory.
 - The Minnesota State Academies should develop internal policies and procedures to ensure it manages its assets in accordance with state policy.
-

Finding 9. The Minnesota State Academies did not document the timely deposit of its receipts. (p. 40)

Recommendation

The Minnesota State Academies should strengthen its internal controls to ensure it documents the timely deposit of its receipts in accordance with state statutes.

Finding 10. The Minnesota State Academies overreported expenditures to the Minnesota Department of Education. As a result, the Minnesota Department of Education overpaid the Minnesota State Academies. (p. 41)

Recommendations

- The Minnesota State Academies should accurately report expenditures to the Minnesota Department of Education.
 - The Minnesota State Academies should return to the Minnesota Department of Education the reimbursements received as a result of the overreported expenditures.
 - The Minnesota State Academies should strengthen its internal controls to ensure it accurately reports expenditures to the Minnesota Department of Education.
-

Finding 11. The Minnesota State Academies did not always properly document its reconciliation between its submitted medical claims and the reimbursements from the Department of Human Services. (p. 42)

Recommendations

- The Minnesota State Academies should properly document its reconciliation of third-party billing claims submitted with the reimbursements it receives.
 - The Minnesota State Academies should strengthen its internal controls to ensure it receives accurate third-party billing reimbursements.
-

Finding 12. The Minnesota State Academies did not always obtain approval from Minnesota Management and Budget prior to accepting donations, as required by state statutes. (p. 44)

Recommendations

- The Minnesota State Academies should obtain approval from Minnesota Management and Budget prior to accepting all donations, as required by state statutes.
 - The Minnesota State Academies should strengthen its internal controls to ensure it accepts donations in accordance with state statutes.
-

Background

Minnesota State Academies Overview and History

The Minnesota State Academies (MSA) are two residential public schools in Faribault: the Minnesota State Academy for the Deaf and the Minnesota State Academy for the Blind. MSA provides education and other services to students who are blind, visually impaired, deaf, or hard of hearing, including those with multiple disabilities.

MSA serves students ranging from infants participating in early childhood services to students who are 21 years old and working to meet graduation requirements. All students are on Individual Education Programs, and approximately 40 percent of enrolled students live on campus in dormitories, requiring supervision and services 24 hours a day.¹ Exhibit 1 shows student enrollment in each school over the last six school years.

Exhibit 1
Student Enrollment by School, between 2018 and 2024

| School Year | Minnesota State Academy for the Blind | Minnesota State Academy for the Deaf |
|-------------|--|---|
| 2018-2019 | 51 | 108 |
| 2019-2020 | 55 | 101 |
| 2020-2021 | 48 | 100 |
| 2021-2022 | 48 | 93 |
| 2022-2023 | 46 | 73 |
| 2023-2024 | 45 | 85 |

Source: Minnesota State Academies.

MSA has a governing board that consists of seven members and two ex officio members; voting members are appointed by the governor with the advice and consent of the Senate. The board must include at least one member of the blind community and one member of the deaf community. Terry Wilding is the academies’ superintendent and has held that position since 2016.

MSA received a general fund appropriation of approximately \$14 million per year for fiscal years 2022 and 2023, and \$18 million for Fiscal Year 2024.² MSA also generates revenue from donations, student fees, tuition, and rental income.

¹ 34 *CFR*, 300.320 (2007); and *Minnesota Statutes* 2023, 125A.08. An Individual Education Program is a written statement for each student with disabilities that outlines goals and objectives based on the student’s needs.

² *Laws of Minnesota* 2021, First Special Session, chapter 13, art. 11, sec. 5; and *Laws of Minnesota* 2023, chapter 55, art. 12, sec. 18.

Audit Scope, Objectives, Methodology, and Criteria

We conducted this audit to determine whether MSA had adequate internal controls, complied with significant legal requirements, and resolved prior audit findings.³ The audit scope included payroll expenditures, nonpayroll expenditures, and receipts. The period under examination was from July 1, 2021, through December 31, 2023. Exhibit 2 shows MSA's appropriations, receipts, and expenditures during the scope of the audit.

Exhibit 2

Appropriations, Receipts, and Expenditures, July 1, 2021, through December 31, 2023

| Appropriations | Amount |
|-----------------------------------|--------------|
| General Fund | \$46,139,000 |
| Receipts | Amount |
| Management Aide Reimbursements | \$ 7,538,489 |
| Third-Party Billing | 583,039 |
| Tuition | 174,397 |
| Student Activity Fees | 128,613 |
| Orientation and Mobility Services | 90,622 |
| Donations | 54,924 |
| Student Bank Accounts | 21,594 |
| Rental Income | 16,858 |
| Miscellaneous Receipts | 55,492 |
| Other ^a | 1,294,487 |
| Total | \$ 9,958,515 |
| Expenditures | Amount |
| Payroll Expenditures | \$37,474,454 |
| Nonpayroll Expenditures | 7,310,397 |
| Total | \$44,784,851 |

^a "Other" includes \$860,206 in federal grant revenue, \$403,786 in state grant revenue, and \$30,495 in interest earnings. We did not test these receipts.

Source: Office of the Legislative Auditor, based on data in the state's accounting system.

Payroll Expenditures

This part of the audit focused on the accuracy of the compensation paid to employees. We designed our work to address the following questions:

- Were MSA's internal controls adequate to ensure it complied with applicable legal provisions?
- Did MSA comply with applicable legal provisions?
- Did MSA resolve a prior audit finding?

³ Office of the Legislative Auditor, Financial Audit Division, *Minnesota State Academies: Internal Controls and Compliance Audit, July 2009 through January 2013* (St. Paul, 2013).

To gain an understanding of MSA's internal controls and compliance requirements for payroll expenditures, we interviewed MSA staff and reviewed policies. We also analyzed holiday pay, leave balance adjustments, and paid leave to determine compliance with state policy and the employment contracts. Additionally, we tested:

- The starting salaries for a sample of employees hired during the scope of the audit, all pay rate changes, and a sample of retroactive pay rate adjustments.
- A sample of employee timesheets.
- A sample of overtime payments and compensatory time earned.
- A sample of separation payments.
- All on-call pay.
- All shift differential pay.
- A sample of extracurricular activity payments.

Nonpayroll Expenditures

This part of the audit focused on nonpayroll expenditures. We designed our work to address the following questions:

- Were MSA's internal controls adequate to ensure it obtained goods and services in compliance with applicable finance-related legal provisions?
- Did MSA obtain goods and services in compliance with applicable finance-related legal provisions?
- Did MSA resolve prior audit findings?

To gain an understanding of MSA's internal controls and compliance requirements for various types of nonpayroll expenditures, we interviewed MSA staff and reviewed policies. We also reviewed access rights to the state's accounting system, inspected physical inventory, and tested the use of dedicated funding sources. Additionally, we tested:

- A sample of purchases made with state purchasing cards.
- A sample of travel expenditures.
- A sample of expense reimbursements.
- A sample of professional/technical services contracts and expenditures.
- A sample of annual plan contracts and expenditures.
- A sample of purchases made with purchase orders.
- A sample of imprest cash expenditures.

Receipts

This part of the audit focused on receipts MSA collected. We designed our work to address the following questions:

- Were MSA's internal controls adequate to ensure it accurately collected and accounted for receipts, and safeguarded and deposited receipts in compliance with legal requirements?
- Did MSA accurately collect and account for receipts, and safeguard and deposit receipts in compliance with legal requirements?
- Did MSA resolve prior audit findings?

To gain an understanding of MSA's internal controls and compliance requirements related to receipts, we interviewed MSA staff and reviewed policies. We also analyzed MSA's collection of student activity fees and various other fees, and reviewed MSA's oversight of two related charitable foundations. Additionally, we tested:

- A sample of cash and check deposits.
- A sample of donations received by MSA.
- A sample of third-party billing receipts.
- All management aide reimbursements.
- A sample of other MSA billings, including tuition, orientation and mobility services, and rental income.

We conducted this performance audit in accordance with generally accepted government auditing standards.⁴ 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 believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. When sampling was used, we used a sampling method that complies with generally accepted government auditing standards and that supports our findings and conclusions. That method does not, however, allow us to project the results we obtained to the populations from which the samples were selected.

We assessed internal controls against the most recent edition of the internal control standards, published by the U.S. Government Accountability Office.⁵ To identify legal compliance criteria for the activity we reviewed, we examined state and federal laws, state administrative rules, state contracts, and policies and procedures established by the departments of Management and Budget and Administration, as well as policies and procedures established by MSA.

⁴ Comptroller General of the United States, Government Accountability Office, *Government Auditing Standards, 2018 Revision* (Washington, DC, Technical Update April 2021).

⁵ Comptroller General of the United States, Government Accountability Office, *Standards for Internal Control in the Federal Government* (Washington, DC, September 2014). In September 2014, the State of Minnesota adopted these standards as its internal control framework for the executive branch.

Oversight and Funding

Minnesota State Academies Oversight

The Minnesota State Academies (MSA) are overseen by a nine-member governing board. All voting board members are appointed by the governor with the advice and consent of the Senate. The nine-member board includes the following members, as required by statute:⁶

- One present or former superintendent of an independent school district.
- One present or former special education director.
- The commissioner of Education or the commissioner's designee.
- One member of the blind community.
- One member of the deaf community.
- Two members of the general public with business, administrative, or financial expertise.
- One nonvoting, unpaid ex officio member appointed by the site council for the State Academy for the Deaf.
- One nonvoting, unpaid ex officio member appointed by the site council for the State Academy for the Blind.

The board establishes a meeting schedule prior to each school year; the board generally schedules meetings on a monthly basis during the school year. The board has established several standing committees that include members of the board, MSA staff, and other key stakeholders.

State statutes require the board to establish and appoint members to a site council at each academy to exercise power and authority granted by the board.⁷ The purpose of the site councils are to “recommend creation, implementation, and evaluation of school-wide functions and programs pursuant to the mission and vision of the Minnesota State Academies.”⁸

⁶ *Minnesota Statutes* 2023, 125A.62, subd. 1.

⁷ *Ibid.*, subd. 6.

⁸ Minnesota State Academy for the Blind, *Site Council Bylaws*, art. II, <https://msab.msa.state.mn.us/information/site-council/bylaws>, accessed August 6, 2024; and Minnesota State Academy for the Deaf, *Site Council Bylaws*, art. II, revised June 2020, <https://msad.msa.state.mn.us/about-us/site-council>, accessed August 6, 2024.

Membership of the site councils includes students, parents, MSA teachers and staff, alumni, and members of the deaf and blind communities. According to the bylaws, the site councils shall meet monthly during the school year.⁹

FINDING 1

The Minnesota State Academies' site councils did not meet in accordance with their bylaws.

During the scope of the audit, MSA's site councils did not meet monthly during the school year, as required by site council bylaws. Specifically, we found the following:

- During the 2021-2022 school year, the Minnesota State Academy for the Blind Site Council did not meet during three of nine months, and the Minnesota State Academy for the Deaf Site Council did not meet during one of nine months.
- During the 2022-2023 school year, the Minnesota State Academy for the Blind Site Council did not meet during three of nine months, and the Minnesota State Academy for the Deaf Site Council did not meet during five of nine months.
- During the 2023-2024 school year, both the Minnesota State Academy for the Blind Site Council and the Minnesota State Academy for the Deaf Site Council did not meet during nine of nine months.

According to the bylaws, the site councils cannot make a decision unless a quorum of 51 percent of voting members is present. For a majority of the meetings not held during the audit scope, the site councils cancelled meetings because they did not have a quorum. Prior to the 2023-2024 school year, MSA's governing board cancelled all site council meetings until the board could revise bylaws to improve attendance.¹⁰

The purpose of the site councils is to implement MSA's vision and mission through shared decision making. By not meeting consistently, the stakeholders, including the schools and its students, are not able to participate in the implementation of MSA's vision and mission. As a result, the board makes decisions without the input of those who have a vested interest in the school or the relevant experience to guide those decisions.

RECOMMENDATIONS

- **The Minnesota State Academies' site councils should meet in accordance with their bylaws.**
 - **The Minnesota State Academies' governing board should ensure that the site councils meet in accordance with their bylaws.**
-

⁹ Minnesota State Academy for the Blind, *Site Council Bylaws*, art. IX, sec. 1, <https://msab.msa.state.mn.us/information/site-council/bylaws>, accessed August 6, 2024; and Minnesota State Academy for the Deaf, *Site Council Bylaws*, art. IX, sec. 1, revised June 2020, <https://msad.msa.state.mn.us/about-us/site-council>, accessed August 6, 2024.

¹⁰ The board approved revised site council bylaws on May 15, 2024. According to MSA, the site councils will resume meeting during the 2024-2025 school year.

Funding

MSA receives a general fund appropriation from the Legislature to fund its operations. During the audit period, MSA received annual appropriations of approximately \$14 million for fiscal years 2022 and 2023, and \$18 million for Fiscal Year 2024.

MSA also generates revenue from third-party billing, tuition, orientation and mobility services, and seminars.¹¹ State statutes appropriate this revenue to MSA to use for its operations.¹² Further, state statutes allow agencies to carry balances that are appropriated for special purposes.¹³ MSA has not spent all of this dedicated revenue and, as a result, has carried balances in these accounts dating back to Fiscal Year 2012. Since then, the balances have increased more than 700 percent. As of July 1, 2024, MSA had a balance of \$3,737,000 in these four accounts.

Exhibit 3 shows the balances of these revenue sources at the beginning of Fiscal Year 2012, the total revenues and total expenditures between fiscal years 2012 and 2024, and the balances at the end of Fiscal Year 2024.

Exhibit 3

Dedicated Funding Revenues and Expenditures, July 1, 2011, through July 1, 2024

| Revenue Source | Beginning Balance | Revenues | Expenditures | Ending Balance |
|--------------------------|-------------------|-------------|--------------|----------------|
| Third-Party Billing | \$170,000 | \$2,725,000 | \$1,015,000 | \$1,880,000 |
| Tuition | 250,000 | 925,000 | 95,000 | 1,080,000 |
| Orientation and Mobility | 23,000 | 1,113,000 | 461,000 | 675,000 |
| Seminars | 23,000 | 101,000 | 22,000 | 102,000 |
| Total | \$466,000 | \$4,864,000 | \$1,593,000 | \$3,737,000 |

Source: Office of the Legislative Auditor, based on data in the state's accounting system.

MSA has not developed policies and procedures or documented a plan regarding when to use this dedicated funding or how much dedicated funding to use per fiscal year. MSA told us it followed decisions made by the previous finance director regarding how much of the dedicated funds to spend per fiscal year. MSA staff told us they were aware of the large balances and have discussed how to better manage these appropriations; however, as of July 2024, they had not made any decisions for how to spend down these balances.

¹¹ Third-party billings are reimbursements from health insurers for health-related services provided by MSA. Orientation and mobility services are to help students who are blind or visually impaired travel safely and independently.

¹² *Minnesota Statutes* 2023, 125A.21, subd. 1; 125A.69, subd. 3; and 125A.71.

¹³ *Minnesota Statutes* 2023, 16A.28, subd. 7.

Foundation Oversight

Both schools have foundations that support their missions. These foundations are tax-exempt 501(c)(3) charitable organizations and are separate legal entities from MSA.

The Minnesota State Academy for the Deaf Foundation (MSAD Foundation) was created to raise funding to benefit the Minnesota State Academy for the Deaf, its students, and deaf or hard-of-hearing youth in Minnesota. The Minnesota State Academy for the Blind Foundation (MSAB Foundation) was created to raise funding to benefit the Minnesota State Academy for the Blind and its students.

MSA has entered into contracts with both foundations that require them to: (1) comply with all state and federal laws governing tax-exempt charitable organizations, (2) submit to MSA their financial statements filed with the Office of the Attorney General, (3) use funds to pay for administrative costs or activities to support the academies, and (4) submit to MSA an annual report of their fundraising activities.

FINDING 2 – PRIOR AUDIT FINDING UNRESOLVED

The Minnesota State Academies did not monitor the financial and legal activities of its affiliated foundations, as required by the contracts.

MSA did not obtain required financial reports from its affiliated foundations, including their annual financial statements or their annual reports about fundraising activities.¹⁴ This is a prior audit finding.¹⁵

MSA told us that it did not monitor the foundations because the foundations are a separate legal entity and MSA was unsure of its authority to review the foundations' financial reports. However, the contracts between MSA and the foundations explicitly require each foundation to submit their financial reports to MSA. Review of these reports would allow the academies to ensure the financial integrity of the organizations and verify that they are acting in the best interest of the academies.

Additionally, we found the following issues that MSA could have identified and addressed had it monitored the foundations more closely:

- The MSAD Foundation was inactive between 2020 and 2023 because the foundation board members had moved out-of-state. During this time, the foundation was not actively raising or distributing funds; it had a balance of \$45,000 that sat idle earning interest. When the foundation board members were no longer actively managing the foundation, MSA did not work to replace the board members, nor did it request a distribution of the balance in the foundation's bank account to MSA.

¹⁴ The MSAB Foundation submitted its annual financial reports to the Office of the Attorney General as required by state statutes. *Minnesota Statutes* 2023, 309.53.

¹⁵ Office of the Legislative Auditor, Financial Audit Division, *Minnesota State Academies: Internal Controls and Compliance Audit, July 2009 through January 2013* (St. Paul, 2013), 10.

- The MSAD Foundation was reestablished under a new board in 2023. The new board members were able to access the foundation's bank accounts and began actively raising funds in early 2024. The contract between MSA and the MSAD Foundation expired July 1, 2022, and MSA had not entered into a new contract as of July 2024.
- The MSAD Foundation did not file as a charitable organization with the Office of the Attorney General during the audit scope. Foundation officials told us it was exempt from registration because it did not receive more than \$25,000 in annual contributions; however, the foundation did not notify the Office of the Attorney General of its exemption.¹⁶
- The MSAB Foundation did not file as a nonprofit corporation with the Office of the Secretary of State. The MSAB Foundation was required to renew its filing in December 2020; however, it did not renew until we inquired about its filing status in May 2024.

By not monitoring the financial and legal activity of the foundations, MSA faces a higher risk of the foundations misusing funds intended for the academies, not acting in the best interest of the academies, or not filing required reports with the state. The issues enumerated above could prevent the foundations from legally soliciting money and could have a potentially negative impact on the reputation of the academies.

RECOMMENDATIONS

- **The Minnesota State Academies should monitor the financial and legal activities of its affiliated foundations, as required by the contracts.**
 - **The Minnesota State Academies should strengthen its internal controls to ensure it monitors the financial and legal activities of its affiliated foundations.**
-

¹⁶ *Minnesota Statutes* 2023, 309.515, subd. 1.



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Payroll Expenditures

As of December 2023, the Minnesota State Academies (MSA) employed 196 employees. During the scope of the audit, MSA paid \$37,474,454 in payroll expenditures. MSA employees are covered by seven state employment contracts: American Federation of State, County, and Municipal Employees (AFSCME); Commissioner's Plan; Managerial Plan; Minnesota Association of Professional Employees (MAPE); Middle Management Association (MMA); Minnesota Nurses Association (MNA); and State Residential Schools Education Association (SRSEA). Exhibit 4 shows MSA's payroll expenditures by type.

Exhibit 4

Payroll Expenditures, July 1, 2021, through December 31, 2023

| Type of Expenditures | Gross Pay | Employer Expenses ^a | Total |
|------------------------------|--------------|--------------------------------|--------------|
| Hours Worked and Leave Taken | \$24,611,108 | \$10,430,671 | \$35,041,779 |
| Extracurricular Activities | 335,791 | 106,395 | 442,186 |
| Retroactive Pay Adjustments | 175,964 | 64,347 | 240,311 |
| Separation Pay | 140,764 | 2,471 | 143,235 |
| Overtime Pay | 90,862 | 12,547 | 103,409 |
| Shift Differential Pay | 86,968 | 11,870 | 98,838 |
| On-Call Pay | 43,981 | 6,027 | 50,008 |
| Other ^b | 361,475 | 993,213 | 1,354,688 |
| Total | \$25,846,913 | \$11,627,541 | \$37,474,454 |

^a "Employer Expenses" include the employer shares of FICA, retirement, and insurance contributions.

^b "Other" includes \$622,459 paid to the Minnesota Department of Administration for workers' compensation; \$522,746 paid for miscellaneous payroll; \$167,096 paid to the Department of Employment and Economic Development for unemployment compensation; \$42,211 paid to Minnesota Management and Budget for miscellaneous benefits; and \$175 for a clothing allowance that MSA miscoded. We did not audit these other payroll expenditures.

Source: Office of the Legislative Auditor, based on data in the state's accounting system.

Employee Pay Rates

State employment contracts establish salary ranges for employee positions throughout state government. Under Minnesota rules, individual departments have the authority to set the starting salaries for new employees within the salary range for a position, up to certain limits.¹⁷ To exceed those limits, departments must obtain approval from Minnesota Management and Budget (MMB).

During the scope of the audit, MSA hired or rehired 102 employees, including 54 with starting salaries that required MMB's approval. We tested the starting salaries for a random sample of ten of those employees and an additional judgmental sample, based on our analysis, and found no significant issues.

¹⁷ *Minnesota Rules*, 3900.2100, <https://www.revisor.mn.gov/rules/3900.2100/>, accessed July 25, 2024.

Pay Rate Increases

Employees receive periodic pay rate increases based on provisions in applicable employment contracts.

Under the state's employment contracts with AFSCME, MAPE, MMA, MNA, and SRSEA, all employees receive an annual general salary increase, and semiannual or annual step progression salary increases.¹⁸ Employees are eligible for the step progression increase if they are not at the top of the salary range assigned to their job; the increase may be withheld by the appointing authority due to an employee's unsatisfactory job performance. We tested all 996 pay rate increases granted to AFSCME, MAPE, MMA, MNA, and SRSEA employees and found no issues.

Under the Commissioner's Plan and the Managerial Plan, employees may receive both a general salary increase and a performance-based salary increase each year.¹⁹ During the scope of the audit, ten employees received a total of 28 general salary increases and seven employees received a total of 16 performance increases. We tested all pay rate increases granted to Commissioner's Plan and Managerial Plan employees and found no issues.

Pay rate increases are recorded in the state's payroll system with an effective date. If that effective date is within the current or a future pay period, the payroll system will calculate pay at the new rate starting on the effective date. If that effective date is in a prior pay period, a retroactive pay rate adjustment is paid to the employee. During the audit period, the office paid 376 retroactive pay rate adjustments totaling \$240,311 to 248 employees. We tested the accuracy of a random sample of 43 of those payments and found no issues.

Payroll Processing

State employees are paid biweekly. According to state policy, employees are responsible for completing and modifying their own timesheets, and primary supervisors are responsible for approving employee timesheets.²⁰ If necessary, a backup approver or payroll staff may modify or approve an employee's timesheet, but

¹⁸ American Federation of State, County, and Municipal Employees (AFSCME) agreements 2021-2023 and 2023-2025, art. 18, secs. 3-5; Minnesota Association of Professional Employees (MAPE) agreements 2021-2023 and 2023-2025, art. 24, secs. 3-4; Middle Management Association (MMA) agreements 2021-2023 and 2023-2025, art. 16, secs. 1-3; Minnesota Nurses Association (MNA) agreement 2021-2023, art. 17, secs. 4-6; and State Residential Schools Education Association (SRSEA) agreements 2021-2023 and 2023-2025, art. 25, secs. 3-4, 6. The agreements provided for general salary increases of 2.5 percent, effective on July 1 in 2021 and 2022, and a general salary increase of 5.5 percent effective on July 1, 2023.

¹⁹ Commissioner's Plan agreements 2021-2023 and 2023-2025, Chapter 14; and Managerial Plan agreements 2021-2023 and 2023-2025, Chapter 14. The agreements provided for general salary increases of 2.5 percent, effective on July 1 in 2021 and 2022, and a general salary increase of 5.5 percent effective on July 1, 2023.

²⁰ Minnesota Management and Budget, Statewide Operating Policy and Procedure PAY0017, *Self Service Time Entry*, issued February 2011.

this should be “strictly limited,” and they should document the reason for the modification or approval.²¹ Employees may not approve their own timesheets.

The state’s payroll system allows users to generate various reports to ensure the accuracy of payroll expenditures. State policy requires agencies to review certain reports each pay period, such as the Self Service Time Entry Audit Report.²²

During the scope of the audit, MSA employees completed 11,636 timesheets in 65 biweekly pay periods. We tested all 11,636 timesheets to determine whether employees completed their own timesheets and supervisors approved the timesheets in accordance with state policy. Additionally, we tested the department’s review of payroll reports for a random sample of 16 of 65 pay periods.

FINDING 3

The Minnesota State Academies did not process payroll in accordance with state policy.

During the scope of the audit, we found the following issues with employee timesheets:

- Employees did not complete their own timesheets in 4,187 of 11,636 (36 percent) timesheets completed. According to state policy, supervisors or payroll staff completing timesheets on behalf of an employee is permitted, but should be limited, and the supervisor or payroll staff should document the reason for completing the timesheet.²³

In 725 of 4,187 (17 percent) instances, the supervisor or payroll staff did not document the reason why they completed the employee’s timesheet.

- Primary supervisors did not approve employees’ timesheets in 955 of 11,636 (8 percent) timesheets completed. According to state policy, backup supervisors are permitted to approve timesheets on behalf of the primary supervisor; however, backup approvals should be limited, and they should document the reason for approving the timesheet.²⁴

In 457 of 955 (48 percent) instances, the backup supervisors did not document the reason why they approved the employee’s timesheet.

²¹ Minnesota Management and Budget, Statewide Operating Policy and Procedure PAY0017, *Self Service Time Entry*.

²² Minnesota Management and Budget, Statewide Operating Policy and Procedure PAY0028, *Agency Verification of Payroll and Human Services Transactions*, issued August 2011, requires agencies to review the Payroll Register and Payroll Posting Audit Trail reports. Minnesota Management and Budget, Statewide Operating Policy and Procedure PAY0017, *Self Service Time Entry*, requires agencies to review the Self Service Time Entry Audit Report.

²³ Minnesota Management and Budget, Statewide Operating Policy and Procedure PAY0017, *Self Service Time Entry*.

²⁴ *Ibid.*

In addition to issues with employee timesheets, we identified other ways in which MSA did not comply with state payroll policies. For example, during the scope of the audit, MSA did not review the Self Service Time Entry Audit Report, as required by state policy.²⁵ This report identifies timesheets completed by someone other than the employee or approved by someone other than the primary approver. These timesheets are more likely to contain errors than timesheets completed by the employee and approved by the primary approver.

MSA told us it stopped reviewing this report due to the number of exceptions and the time required to review the report. However, reviewing this report would allow MSA to identify opportunities to reduce the number of exceptions. For example, MSA could provide additional training on the policy requirements to staff who consistently do not complete their own timesheets. In addition, reviewing the report allows agencies to identify and review the accuracy of those timesheets.

Additionally, we found that three MSA employees had the ability to approve their own timesheets in the state's payroll system. We reviewed all timesheets for these three employees and found that one employee approved their own timesheet on three separate occasions.

MSA staff told us that it is necessary for two of these employees, the finance director and human resources director, to serve as backup approvers in their own departments for when the primary supervisor (the superintendent) is unavailable to approve timesheets. MSA has a mitigating internal control in place to reduce the risk of these individuals approving their own timesheets; however, MSA did not follow the internal control in two of these three instances.²⁶

Allowing employees to approve their own timesheets increases the risk of error or fraud. Specifically, if the timesheets do not accurately reflect actual leave hours taken, those employees could be compensated for more paid time off than earned or could be paid for hours worked when they actually took leave. We reviewed the three self-approved timesheets and found no indications of error or fraud.

RECOMMENDATIONS

- **The Minnesota State Academies should process payroll in accordance with state policy.**
 - **The Minnesota State Academies should strengthen its internal controls to ensure it processes payroll in accordance with state policy.**
-

²⁵ Minnesota Management and Budget, Statewide Operating Policy and Procedure PAY0017, *Self Service Time Entry*.

²⁶ In one instance, the superintendent subsequently approved the timesheet via e-mail.

Separation Pay

Upon leaving state service, employees may be eligible to receive various types of separation payments. All employees receive payments for unused vacation leave and compensatory time, up to limits established in each employment contract. Employees that meet certain eligibility requirements related to age and years of service also receive severance payments for a percentage of unused sick leave.

During the scope of the audit, the office made \$143,235 in separation payments to 45 employees. We tested the accuracy and eligibility of a random sample of seven separation payments and three judgmental samples, based on our analysis, and found no issues.

Overtime Pay

The employment contracts for MSA employees include provisions that allow some employees to earn overtime. Overtime can be compensated in the form of money added to employees' paychecks or compensatory time that can be used as paid time off in future pay periods. Employees may earn overtime at straight time or at time and one-half, depending on their position and employment contract.²⁷

During the scope of the audit, MSA paid \$103,409 in overtime and \$387,899 in overtime as compensatory time on a total of 1,530 timesheets. We tested a random sample of overtime compensation on 40 timesheets and found no issues.

On-Call Pay

The employment contracts for some MSA employees include provisions that allow the employees to earn on-call pay. Employees earn on-call pay when they are required to remain available for work during off-duty periods. Under the employment contracts with AFSCME, MAPE, MNA, and the Commissioner's Plan, employees receive 15 minutes of straight time for each hour of on-call status, or 25 percent of the employee's regular hourly pay rate.²⁸ Under the employment contract with MMA, employees receive \$60 for each day, or portion of a day, of on-call duty.²⁹

During the scope of the audit, MSA paid \$73,324 in on-call pay to 21 employees. We tested the accuracy of the pay rates for all on-call pay, and found no significant issues.

²⁷ Straight time means the employee's regular hourly pay rate. Time and one-half means the employee's regular hourly pay rate times 1.5.

²⁸ American Federation of State, County, and Municipal Employees (AFSCME) agreements 2021-2023 and 2023-2025, art. 6, sec. 7; Minnesota Association of Professional Employees (MAPE) agreements 2021-2023 and 2023-2025, art. 25, sec. 3; Minnesota Nurses Association (MNA) agreement 2021-2023, art. 4, sec. 10; and Commissioner's Plan agreements 2021-2023 and 2023-2025, Chapter 2.

²⁹ Middle Management Association (MMA) agreements 2021-2023 and 2023-2025, art. 11, sec. 5. This amount changed to \$100 in the 2023-2025 contract, effective December 11, 2023.

Shift Differential

The employment contracts for some MSA employees include provisions that allow the employees to earn a shift differential. Employees earn a shift differential when MSA requires employees to work outside of normal operating hours, generally shifts beginning before 6:00 a.m. or ending after 7:00 p.m. Under the various employment contracts, employees receive an hourly rate between \$0.65 and \$2.25, in addition to their regular rate of pay.³⁰

During the scope of the audit, MSA paid shift differentials totaling \$98,838 to 117 employees. We tested the accuracy of all shift differential pay and found no significant issues.

Extracurricular Activity

MSA compensates employees who work extracurricular activity assignments, such as serving as the school's football coach, in addition to their normal job duties. The SRSEA employment contract establishes the pay ranges for each extracurricular activity assignment.³¹ MSA may pay employees an hourly rate or a stipend amount for an employee's extracurricular assignment.

During the scope of the audit, MSA made 313 extracurricular activity payments totaling \$442,186 to 76 employees. We tested a random sample of 60 payments and found no issues.

Holiday Pay

Applicable employment contracts provided employees with 11 annual paid holidays and 1 floating holiday each fiscal year. During the scope of the audit, MSA paid employees \$1,359,076 for holidays and \$158,434 for floating holidays. We tested all holiday and floating holiday pay and found no issues.

³⁰ American Federation of State, County, and Municipal Employees (AFSCME) agreements 2021-2023, art. 18, sec. 7, and 2023-2025, art. 18, sec. 8; Minnesota Association of Professional Employees (MAPE) agreements 2021-2023, art. 24, sec. 10, and 2023-2025, art. 24, sec. 11; Middle Management Association (MMA) agreements 2021-2023 and 2023-2025, art. 16, sec. 8; Minnesota Nurses Association (MNA) agreement 2021-2023, art. 17, sec. 13; State Residential Schools Education Association (SRSEA) agreements 2021-2023 and 2023-2025, art. 25, sec. 5; and Commissioner's Plan agreements 2021-2023 and 2023-2025, Chapter 14.

³¹ State Residential Schools Education Association (SRSEA) agreements 2021-2023, app. K, art. 6; and 2023-2025, app. J, art. 6.

Leave Balance Adjustments

The calculation of employee leave balances is mostly automated in the state's payroll system, but, in some cases, state agencies must manually adjust those balances.

Employees can earn between four and ten hours of vacation leave each biweekly pay period, based on length of service. Employees may accumulate a vacation leave balance to any amount, provided they reduce their balance to a cap of 275 hours at least once each fiscal year. If the vacation leave balance is not reduced to the cap during the fiscal year, the balance is automatically reduced to 275 hours by the state's payroll system at the end of the fiscal year.

During the scope of the audit, five employees did not reduce their vacation leave balances to 275 hours during one or more fiscal years. Minnesota Management and Budget extended the deadline to reduce the balances for state employees with proper authorization, due to the COVID-19 pandemic. We tested the vacation leave balances of these five employees to verify the employee obtained an extension and found no issues.

Under the state employment contracts, some employees who work on a holiday are eligible to have those hours added to their vacation balance. During the scope of the audit, the office made 206 such adjustments for 110 employees. We reviewed these adjustments and found no issues.

Other Paid Leave

State employment contracts provide up to 240 hours of paid parental leave following the birth or adoption of a child. During the scope of the audit, the office paid seven employees \$48,131 for paid parental leave. We reviewed all of these payments and verified that no employee exceeded the limits for paid parental leave.

State policies provided paid leave for various reasons related to COVID-19, with different limits for each reason.³² During the scope of the audit, the office paid \$14,229 to three employees for COVID-19 leave. We reviewed all of the COVID-19 leave payments and found no issues.

The employment contract with SRSEA provides for 16 hours of personal leave for teachers during their first six months of employment. During the scope of the audit, MSA paid personal leave to three employees. We reviewed all personal leave and found no issues, which includes the resolution of a prior audit finding.³³

³² Minnesota Management and Budget, Human Resources/Labor Relations Policy #1440, *COVID-19 Leave*, issued March 18, 2020, revised April 1, 2020, April 7, 2020, and July 22, 2020; Human Resources/Labor Relations Policy #1441, *Expanded FMLA for COVID-19 Related School/Child Care*, issued July 22, 2020, revised September 18, 2020; and Human Resources/Labor Relations Policy #1443, *Expanded Leave for COVID-19 Related School/Child Care*, issued January 1, 2021, revised January 8, 2021.

³³ Office of the Legislative Auditor, Financial Audit Division, *Minnesota State Academies: Internal Controls and Compliance Audit, July 2009 through January 2013* (St. Paul, 2013), 11.



OLA

Nonpayroll Expenditures

During the scope of the audit, the Minnesota State Academies (MSA) had \$7,310,397 in nonpayroll expenditures. Exhibit 5 shows the nonpayroll expenditures by type.

Exhibit 5

Nonpayroll Expenditures, July 1, 2021, through December 31, 2023

| Type of Expenditures | Amount |
|---|------------------|
| Direct Purchase Orders | \$ 945,077 |
| Professional/Technical Services Contracts | 474,171 |
| State Purchasing Cards | 356,863 |
| Travel Expenditures and Employee Expense Reimbursements | 91,968 |
| Annual Plan Contracts | 78,404 |
| Imprest Cash Accounts | 61,459 |
| Other ^a | <u>5,302,455</u> |
| Total | \$7,310,397 |

^a "Other" includes \$3,026,586 in expenditures on routine items, such as supplies. We analyzed these expenditures, determined they were lower risk, and therefore, did not test them. "Other" also includes \$2,286,846 in routine utilities and communications expenditures, \$15,433 in board member stipends, and (\$26,410) in miscellaneous expenditures and corrections. We did not test these expenditures.

Source: Office of the Legislative Auditor, based on data in the state's accounting system.

Direct Purchase Orders

During the scope of the audit, MSA made 1,027 payments totaling \$945,077 on direct purchase orders. These included purchases made on state contracts, such as office supplies and computer equipment, and other purchases, such as employee training. The Minnesota Department of Administration's purchasing manual provides instructions to agencies about buying goods and services, including guidance on obtaining price quotes.³⁴ Additionally, MSA has implemented an internal control in which employees complete a purchase order form and obtain written approval for the purchase from their supervisor.

We tested a random sample of 40 of those expenditures, and 3 additional expenditures selected based on our analysis.

³⁴ Minnesota Department of Administration, *Authority for Local Purchase Manual*, sec. 2.5, revised July 7, 2023.

FINDING 4**The Minnesota State Academies did not always purchase goods or services in accordance with state policy.**

MSA did not document approval for 4 of 43 purchases tested, totaling \$53,194. The amount of these purchases ranged from \$77 to \$44,867. In all four of these instances, MSA purchased the goods based on verbal approval from a supervisor, as opposed to the required written approval.

One of the purchases was for a new vehicle for transporting students. The MSA supervisor in charge of fleet vehicles obtained a price quote for the purchase from a state contract and submitted the quote to the finance department. MSA told us it purchased the vehicle based on a verbal approval from the supervisor and did not require a completed purchase order form.

By not following its own procedure to obtain supervisor approval on a purchase order form, MSA is at higher risk of purchasing goods or services that are unnecessary or do not comply with state policy.

Additionally, MSA did not retain documentation of price quotes for 11 of 43 sample purchases totaling \$7,238. The amount of these purchases ranged from \$61 to \$3,400. MSA told us it obtained price quotes for these purchases via phone, e-mail, or website; however, it did not require staff to document these price quotes. State policy requires a minimum of one price quote for purchases under \$5,000 and requires agencies to retain documentation of the price quote.³⁵

By not documenting price quotes, MSA is at higher risk of purchasing items that are not the best value for the state, or purchasing incorrect or unnecessary items.

RECOMMENDATIONS

- **The Minnesota State Academies should purchase goods or services in accordance with state policy.**
 - **The Minnesota State Academies should strengthen its internal controls to ensure it complies with state policy.**
-

³⁵ Minnesota Department of Administration, *Authority for Local Purchase Manual*, sec. 2.5, revised July 7, 2023.

Professional/Technical Services Contracts

During the scope of the audit, MSA made payments totaling \$474,171 on nine professional/technical services contracts. A majority of its professional/technical services contracts were for physical or mental health services. The Minnesota Department of Administration's state contracting manual provides instructions for agencies entering into professional/technical services contracts, including guidance on obtaining proposals and selecting contractors.³⁶ We tested a random sample of three of those contracts and a judgmental sample, based on our analysis, of three additional contracts and found no issues.

Additionally, we tested a random sample of 26 payments made against these six contracts and found no issues.

State Purchasing Cards

MSA utilized state purchasing cards to pay for certain goods and services, the most common being airline tickets and hotels. State policy establishes guidelines for the use of state purchasing cards, including permissible and prohibited uses, maximum amounts for individual transactions (\$5,000) and total transactions in a billing cycle (\$20,000), and recordkeeping requirements.³⁷

During the scope of the audit, the office used state purchasing cards for \$356,863 in expenses. We tested all of the state purchasing card activity for a random sample of 6 of 30 months and a judgmental sample, based on our analysis, of an additional 6 months in the scope of the audit. We found no significant issues related to compliance with the state purchasing card policy, which includes the resolution of a prior audit finding.³⁸ However, we identified that MSA used purchasing cards to pay for travel that did not comply with state policy, as discussed below.

Travel Expenditures and Employee Expense Reimbursements

During the scope of the audit, MSA paid \$76,951 for direct travel expenditures.³⁹ MSA made a majority of these purchases for MSA's International Studies Club and for

³⁶ Minnesota Department of Administration, Professional/Technical Services Contract Manual, *RFPs and Contractor Selection; Checklist for Professional/Technical Service Contracts Valued \$5,000 or Less; Procedures for Equity Select and P/T Service Contracts Valued Between \$5,001 and \$25,000; and Checklist for Professional/Technical Service Contracts Valued Over \$50,000*, secs. 12-15, revised July 2023.

³⁷ Minnesota Department of Administration, Office of State Procurement, Purchasing Policy 1b, *Purchasing Card Use Policy*, sec. 2.44, issued November 1, 2013, revised April 2018.

³⁸ Office of the Legislative Auditor, Financial Audit Division, *Minnesota State Academies: Internal Controls and Compliance Audit, July 2009 through January 2013* (St. Paul, 2013), 11.

³⁹ Direct travel expenditures are purchases made through the state's accounting system and coded to a "travel" account. These expenditures do not include travel-related costs, such as hotels or airfare, that MSA purchases using state purchasing cards, or travel-related costs that MSA reimburses through employee expense reimbursements.

bus rentals for student sporting events. We analyzed all direct travel expenditures and tested payments made to a sample of eight judgmentally selected samples, based on our analysis, and found no significant issues.

Additionally, MSA pays for travel-related expenditures, such as airfare or lodging, using state purchasing cards, and reimburses staff for other expenses, such as meals or parking expenses, incurred while traveling.

MSA reimburses employees for expenses incurred for legitimate state business. During the scope of the audit, MSA reimbursed employees for \$15,089 in business expenses submitted on 158 separate expense reports. We tested a random sample of 25 and a judgmental sample, based on our analysis, of 8 of those expense reports.

In our testing of state purchasing card expenditures and employee expense reimbursements, we identified three trips taken by the superintendent during our audit scope.

According to state policy, travel must be primarily for the benefit of the state and related to the effective conduct of state business.⁴⁰ Out-of-state travel requires advance written approval, and agencies must include conference agendas to assist in approval decisions.⁴¹

FINDING 5

The Minnesota State Academies superintendent approved his own travel.

During the scope of the audit, we identified three trips in which the superintendent approved his own travel. MSA staff told us that the superintendent approves all out-of-state travel. For his own travel, he would work with his assistant to plan and book the travel, and then submit the required documentation to finance for payment. In one of the three trips, an MSA program director approved the travel, in addition to the superintendent; however, this approval was after the travel occurred.

State policy requires advance written approval for out-of-state travel from the “Appointing Authority Designee.”⁴² MSA policy states, “All Out-of-State Travel must be approved by the superintendent.”⁴³ MSA policy does not require approval from another individual for the superintendent’s travel.

State statutes and state policy require agencies to design and implement internal controls that, among other things, ensure programs are administered in compliance with state law.⁴⁴ Segregation of duties is an example of an internal control, which separates the responsibility for processing and authorizing transactions. By having the superintendent

⁴⁰ Minnesota Management and Budget, Statewide Operating Policy and Procedure PAY0021, *Travel Expense Approval Required in Advance*, revised February 2024.

⁴¹ *Ibid.*

⁴² *Ibid.*

⁴³ Minnesota State Academies, Policy 740, *Special Expenses/Out of State Travel*, revised February 23, 2022, <https://www.msa.state.mn.us/about-us/policies>, accessed August 7, 2024.

⁴⁴ *Minnesota Statutes* 2023, 16A.057, subd. 1; and Minnesota Management and Budget, Statewide Operating Policy 0102-1, *Internal Control System*, revised March 25, 2024.

purchase and approve his own travel, MSA does not have segregated duties and faces a higher risk that the superintendent's travel is not properly documented or is not in the best interest of the state.

RECOMMENDATION

The Minnesota State Academies should require someone other than the superintendent to approve his travel.

FINDING 6

The Minnesota State Academies did not always comply with state policy when paying for the superintendent's travel expenses.

MSA did not document the business purpose and did not always obtain the required approval for three trips taken by the superintendent. According to MSA, all travel was for the superintendent to attend various conferences and board meetings in other states; however, MSA did not always retain documentation of conference agendas and did not obtain proper written approval for the trips. Without documentation of conference agendas, it was unclear whether MSA obtained and reviewed the documentation prior to the approval or payment of the travel.

Specifically, we found the following:

November 2022

MSA paid \$1,684 for the superintendent to travel to Salt Lake City, Utah, for a board meeting; then to Hartford, Connecticut, for a leadership retreat; then back to Salt Lake City for a conference; and finally, back to Minnesota.

MSA did not properly retain agendas for any of the events on this trip and did not approve the travel in advance. In response to our questions, MSA provided agendas for two of three events on this trip; however, the finance department had not retained the agendas with the payment documentation. State policy requires agencies to include conference agendas as part of the travel authorization form to assist in approval decisions.⁴⁵ The travel occurred between November 3 and November 27, 2022; however, MSA did not complete the travel authorization form until December 15, 2022.

We found the following discrepancies between the travel dates on the authorization form and the actual activity:

- The authorization form listed a Conference of Educational Administrators of Schools and Programs for the Deaf (CEASD) board meeting in Salt Lake City from November 8 through November 11, 2022. MSA provided an agenda for the board meeting; however, the board meeting occurred on November 8 and 9.

⁴⁵ Minnesota Management and Budget, Statewide Operating Policy and Procedure PAY0021, *Travel Expense Approval Required in Advance*.

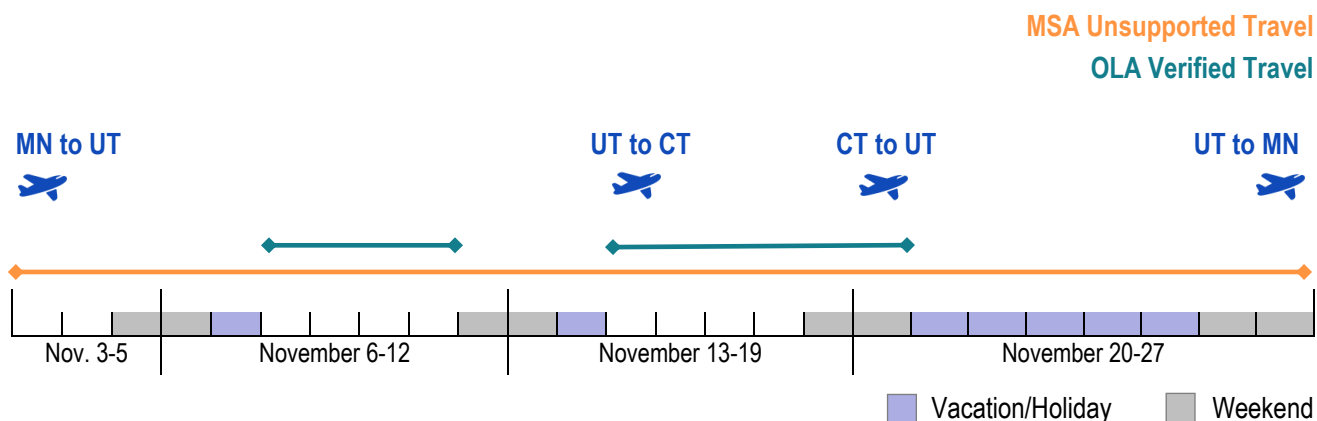
We identified a Council of Administrators of Special Education (CASE) conference that occurred from November 9 through November 11, 2022, in Salt Lake City.

- The authorization form listed a CEASD leadership retreat from November 15 through November 20, 2022, in Hartford, Connecticut. MSA provided an agenda to support the leadership retreat.
- The authorization form listed a CASE conference in Salt Lake City from November 20 through November 27, 2022. As noted above, we determined that the conference actually occurred from November 9 through November 11, 2022. According to the superintendent's timesheets, he took vacation and holiday leave from November 21 through November 25.

Exhibit 6 details the superintendent's travel dates in November 2022 and the dates for which we independently verified the purpose of the travel.

Exhibit 6

Minnesota State Academies, Superintendent Travel, November 2022



Source: Office of the Legislative Auditor.

Additionally, we found the following issues related to the November 2022 travel:

- The superintendent flew to Salt Lake City on November 3, 2022, for a conference that began on November 8, 2022. MSA did not pay for any meals or lodging during these dates; however, MSA did not document whether flight costs were higher as a result of traveling early, as required by state policy.⁴⁶
- MSA paid \$612 for the superintendent to fly from Hartford to Salt Lake City on November 20, 2022, for personal leave; then back to Minnesota on November 27, 2022.⁴⁷ MSA did not document whether there were additional

⁴⁶ Minnesota Management and Budget, Statewide Operating Policy and Procedure PAY0021, *Travel Expense Approval Required in Advance*. If the cost of traveling early is higher than traveling when necessary for a conference, the employee is expected to pay the difference.

⁴⁷ This included a \$318 flight from Hartford to Salt Lake City on November 20 and a \$294 flight from Salt Lake City to Minneapolis on November 27. MSA did not pay for any meals or lodging during the leave.

costs incurred as a result of the additional flight as compared to a direct flight between Hartford and Minnesota.

- MSA reimbursed the superintendent \$113 for meals during this travel. Of the reimbursements, \$56 was not eligible for reimbursement because the meals were during days the superintendent traveled for personal reasons. The remaining \$57 was for meals purchased while attending a conference. Without a conference agenda, we could not determine whether these meals were eligible for reimbursement. State policy prohibits reimbursing for meals if they are provided during a conference.⁴⁸

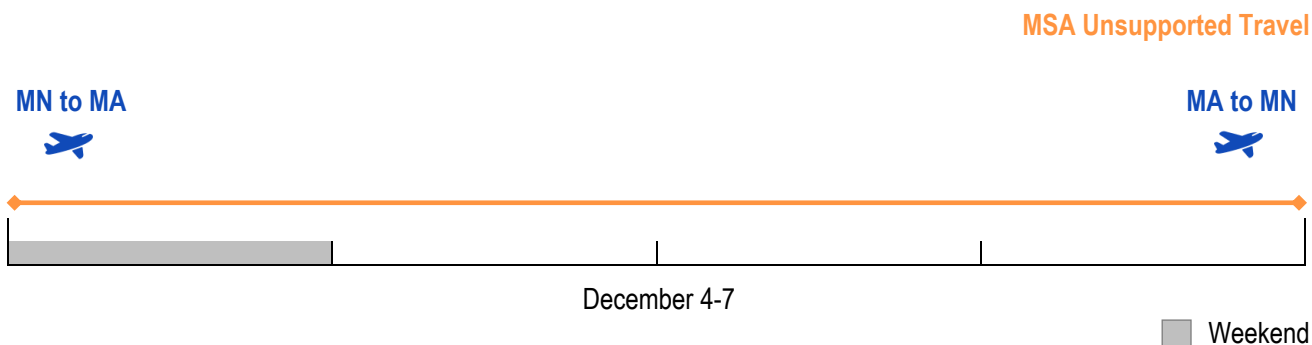
December 2022

From December 4 through December 7, 2022, the superintendent traveled to The Learning Center for the Deaf in Framingham, Massachusetts, for a meeting with the CEASD accreditation team. MSA did not complete a travel authorization form to document the purpose and approval of this trip. MSA told us the superintendent approves all out-of-state travel—including his own—and he would work with his assistant to ensure that they completed all required forms; however, since this trip was shortly after another CEASD-related event in November 2022, MSA overlooked the need to complete another authorization form.

As shown in Exhibit 7, we could not independently verify the purpose of this travel.

Exhibit 7

Minnesota State Academies, Superintendent Travel, December 2022



Source: Office of the Legislative Auditor.

MSA paid \$653 for the superintendent to take this trip and was reimbursed by The Learning Center for the Deaf for travel costs totaling \$582. According to state policy, when travel expenses are paid or reimbursed by a third party, the travel authorization form must include the name of the outside organization and the expenses paid by the outside organization.⁴⁹ Since MSA did not complete a travel authorization form for this trip, it did not document which expenses The Learning Center for the Deaf would pay.

⁴⁸ Minnesota Management and Budget, Statewide Operating Policy and Procedure PAY0021, *Meals and Lodging*.

⁴⁹ *Ibid.*, *Travel Expense Approval Required in Advance*.

April 2023

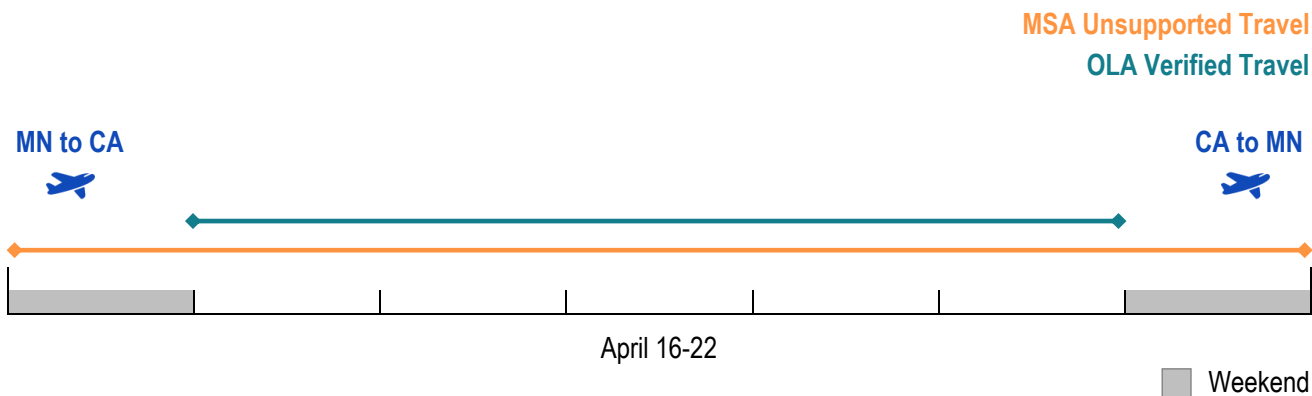
From April 16 through April 22, 2023, MSA paid \$2,083 for the superintendent to travel to San Diego, California, for a CEASD board meeting and to Riverside, California, for a CEASD conference. MSA provided us an agenda for the board meeting; however, the finance department did not retain an agenda with the payment documentation. Additionally, MSA did not retain an agenda for the conference.

We were able to identify that the conference occurred in Riverside from April 18 through April 21, 2023; however, state policy requires agencies to include an agenda as part of the travel authorization form.⁵⁰

Exhibit 8 details the superintendent's travel dates in April 2023 and the dates for which we independently verified the purpose of the travel.

Exhibit 8

Minnesota State Academies, Superintendent Travel, April 2023



Source: Office of the Legislative Auditor.

By not retaining documentation to support the business purpose and written approval for the superintendent's travel, MSA faces a higher risk of paying for travel that is not beneficial to the state or is for personal reasons.

RECOMMENDATIONS

- **The Minnesota State Academies should pay travel expenditures only in accordance with state policy.**
- **The Minnesota State Academies should collect, from the superintendent, the state money used for personal travel.**
- **The Minnesota State Academies should strengthen its internal controls to ensure it pays for travel in accordance with state policy.**

⁵⁰ Minnesota Management and Budget, Statewide Operating Policy and Procedure PAY0021, *Travel Expense Approval Required in Advance*.

Annual Plan Contracts

State policy allows agencies to establish an annual plan for “routine, cookie-cutter, repetitive needs for certain kinds of professional/technical services, with total expenditure limits.”⁵¹ The plan must list the types of services and dollar amount for each service category, and state policy limits the total amount that an agency may pay to a single contractor under the plan to \$5,000.⁵²

During the scope of the audit, MSA made payments totaling \$78,404 to 25 vendors on annual plan contracts. MSA entered into annual plan contracts for training, speakers, and consulting services. We tested payments to a random sample of four vendors and a judgmental sample, based on our analysis, of two additional vendors and found no significant issues.

Imprest Cash Accounts

MSA maintains two imprest cash accounts with balances of \$2,500 for the Minnesota State Academy for the Deaf and \$1,600 for the Minnesota State Academy for the Blind. As defined by state policy, “Imprest Cash is the designation given to cash advances from the state treasury to an agency where a fixed balance is maintained by regular replenishments and used for authorized designations.” Allowable uses of the account include minor disbursements for emergency purchases, employee travel advances, making change when collecting cash for services or sales, and compensating employees when pay was not received through the payroll system.⁵³ Improper uses of the account include loans to an individual for personal use, cashing personal checks, employee travel reimbursements and relocation expenses, and payments for repetitive business that an agency should pay through the state’s accounting system.⁵⁴

MSA maintains a petty cash fund of \$200 to pay for incidental expenditures under \$25. MSA reimburses the petty cash fund from the imprest cash account. MSA policy requires a supervisor to preapprove all petty cash expenditures, and states the petty cash fund can only be used for school-related expenses.⁵⁵

During the scope of the audit, MSA had 252 transactions from its imprest cash accounts totaling \$61,459. We tested a random sample of 40 vouchers and a judgmental sample, based on our analysis, of 2 additional vouchers.

⁵¹ Minnesota Department of Administration, Professional/Technical Services Contract Manual, *Annual Plans and Annual Plan Agreements*, sec. 11, revised July 2023.

⁵² *Ibid.*

⁵³ Minnesota Management and Budget, Statewide Operating Policy 0606-01, *Imprest Cash Accounts*, revised July 6, 2023.

⁵⁴ *Ibid.*

⁵⁵ Minnesota State Academies, Policy 743, *Petty Cash*, revised April 26, 2022, <https://www.msa.state.mn.us/about-us/policies>, accessed September 3, 2024.

FINDING 7**The Minnesota State Academies did not document that it managed its imprest cash accounts in accordance with its policy.**

During the scope of our audit, MSA did not appropriately distribute imprest cash funds for 3 of 42 samples tested. Specifically, for three reimbursements to petty cash totaling \$266, MSA did not always ensure the supervisor approved the purchases prior to reimbursing the employees.

Included in these three reimbursements was a total of 33 individual purchases. For 27 of 33 purchases, MSA did not ensure the supervisor preapproved the purchases. The majority of these purchases were for supplies or student activities.

MSA told us that it does not require written approval for petty cash expenses and that staff do not go shopping without verbal supervisor approval; however, MSA did not document that it obtained approval for these expenses prior to reimbursing them from petty cash. By not requiring written approval for these expenses, MSA is at increased risk that staff could use petty cash for unnecessary or unallowable expenses.

RECOMMENDATIONS

- **The Minnesota State Academies should document that it manages its imprest cash accounts in accordance with its policy.**
 - **The Minnesota State Academies should strengthen its internal controls to ensure it manages its imprest cash accounts in accordance with its policy.**
-

Dedicated Funding Expenditures

During the scope of our audit, MSA collected various funds that the state appropriated back to MSA for dedicated purposes. For example, MSA collects fees and gate receipts from student activities, such as sporting events. State statutes require MSA to spend these funds for student activity purposes.⁵⁶

During the scope of the audit, MSA spent a total of \$432,864 from dedicated funds. We analyzed payroll and expenditure corrections related to these dedicated funds and tested a random sample of 40 of 546 payments. We found no issues.

⁵⁶ *Minnesota Statutes* 2023, 125A.72, subds. 1 and 2.

Inventory of Assets

MSA maintains assets, including both capital assets and sensitive items, needed for its operations. A capital asset is an item “with a normal useful life expectancy exceeding two years...[that] maintains its identity while in use.”⁵⁷ Sensitive items are items “that could be easily sold and are most often subject to pilferage or misuse.”⁵⁸

State policy requires agencies to maintain complete and accurate inventory records and to record all capital assets in the state’s accounting system. Agencies may record sensitive items in the state’s accounting system or in a different system. The policy also states, “Complete physical inventories for capital assets and sensitive items must be conducted, at minimum, biennially.”⁵⁹

MSA records capital assets in the state’s accounting system and records sensitive items and other assets in a separate inventory tracking system. In addition to these two systems, MSA maintains an inventory listing of all equipment that is required to be insured.

During the scope of the audit, MSA conducted a partial inventory in October 2023. We reviewed the documentation of that physical inventory, and tested a random sample of 9 of 42 items and a judgmental sample, based on our analysis, of 21 of 42 items.

FINDING 8

The Minnesota State Academies did not manage its assets in accordance with state policy and did not keep an accurate record of its physical inventory.

In October 2023, MSA conducted a partial inventory of its capital assets; however, this inventory only included 42 capital assets, such as vehicles or buses, that MSA was required to insure. During the audit scope, MSA did not conduct a complete physical inventory of all of its capital assets and sensitive items, as required by state policy.

We tested a random sample of 9 of 42 capital assets on MSA’s inventory list to verify that the assets existed and that MSA accurately recorded the assets. We found the following issues:

- MSA did not properly record the disposal and replacement of two assets. One of these assets was a lawn mower MSA purchased for \$8,000 in 2010. MSA traded this asset for a new lawn mower in June 2021, but did not remove it from the inventory list as of October 2023. MSA did record the new, replacement lawn

⁵⁷ Minnesota Department of Administration, *Property Management Reporting and Accountability Policy*, issued May 1, 2014. Capital assets include land, buildings, equipment with an acquisition cost of \$5,000 or more, infrastructure, art and historical treasures with an acquisition cost of \$5,000 or more, and purchased software with an acquisition cost of \$30,000 or more.

⁵⁸ *Ibid.* Sensitive items include firearms and other weapons, computers, portable printers, scanners, projectors, cellular phones, software with an acquisition cost between \$5,000 and \$30,000, and video equipment with an acquisition cost between \$500 and \$5,000.

⁵⁹ *Ibid.*

mower on the inventory list. The other asset was a skid loader MSA purchased for \$18,000 in 1999. MSA traded this asset for a new skid loader in June 2021, but did not remove it from the inventory list as of October 2023.⁶⁰

- MSA did not properly update the asset inventory list for a trailer that it no longer used. According to the inventory list, MSA purchased the trailer in 1988 and it had a cost of \$0; however, it was no longer in working condition.

We also tested a judgmental sample, based on our analysis, of 21 assets located on MSA's campus to verify that MSA accurately recorded the assets in its inventory records. We found the following issues:

- MSA did not properly record the purchase of a skid loader for \$29,000 on its inventory records. MSA purchased the asset as a replacement for a disposed asset; however, it did not update the inventory records to reflect the new purchase.
- MSA did not include 3 of 21 capital assets in the inventory it conducted in October 2023. The assets included a trailer that cost \$6,000, a tractor that cost \$8,500, and a vacuum that cost \$18,000. MSA recorded these three assets in its inventory tracking system; however, since MSA was not required to insure the items, MSA did not include these items in the physical inventory it conducted in October 2023.

Our testing also identified that MSA did not document a physical inventory of its sensitive items during the scope of the audit. MSA provided documentation from its inventory system showing its assets and their locations. MSA told us it conducts inventory on sensitive items continuously throughout the year. However, MSA did not provide documentation to show that it had conducted an inventory as required by state policy.

Additionally, in our review of MSA's inventory tracking system, we identified 17 items that appeared to be capital assets with an acquisition cost over \$5,000 for which MSA did not conduct a physical inventory. MSA recorded these items in MSA's inventory tracking system; however, MSA did not include the items in the October 2023 inventory review because MSA was not required to insure them.

Finally, MSA had not developed internal policies and procedures to identify who is responsible for conducting capital asset and sensitive item inventories, how often MSA should conduct inventories, and how MSA should document physical inventories.

Inaccurate asset inventory records increase the risk of assets being misappropriated without detection. Conducting periodic physical inventories of assets, documenting the results of those inventories, and updating asset inventory records based on those documented results is necessary to ensure the accuracy of asset inventory records and protect public resources.

⁶⁰ We discuss the replacement skid loader below.

RECOMMENDATIONS

- The Minnesota State Academies should manage its assets in accordance with state policy and keep an accurate record of its physical inventory.
 - The Minnesota State Academies should develop internal policies and procedures to ensure it manages its assets in accordance with state policy.
-



OLA

Receipts

During the scope of the audit, the Minnesota State Academies (MSA) had \$9,958,515 in receipts. MSA collects the majority of its receipts directly through the state's accounting system from other state agencies. MSA also collects cash, check, or credit card receipts. Exhibit 9 shows the receipts by type.

Exhibit 9

Receipts, July 1, 2021, through December 31, 2023

| Type of Receipts | Amount |
|-----------------------------------|------------------|
| Management Aide Reimbursements | \$7,538,489 |
| Third-Party Billing | 583,039 |
| Tuition | 174,397 |
| Student Activity Fees | 128,613 |
| Orientation and Mobility Services | 90,622 |
| Donations | 54,924 |
| Student Bank Accounts | 21,594 |
| Rental Income | 16,858 |
| Miscellaneous Receipts | 55,492 |
| Other ^a | <u>1,294,487</u> |
| Total | \$9,958,515 |

^a "Other" includes \$860,206 in federal grant revenue, \$403,786 in state grant revenue, and \$30,495 in interest earnings. We did not test these receipts.

Source: Office of the Legislative Auditor, based on data in the state's accounting system.

Cash and Check Deposits

During the scope of the audit, MSA collected \$1,125,538 in cash and check receipts. MSA collects cash and check receipts for various purposes, including donations, third-party billings, and student activities. MSA may collect money in person, such as when a parent drops off a check for a student field trip, or it may collect checks through the mail. MSA told us it collects these receipts, deposits the receipts in the bank, and records the deposits in the state's accounting system, on a daily basis.

State statutes require agencies to deposit receipts totaling more than \$1,000 in the bank daily.⁶¹

During the scope of the audit, MSA made 390 deposits. We tested a random sample of 60 of these deposits.

⁶¹ *Minnesota Statutes* 2023, 16A.275, subd. 1.

FINDING 9

The Minnesota State Academies did not document the timely deposit of its receipts.

For 14 of 60 samples tested, MSA did not record the date it received check receipts. Without a documented receipt date, MSA could not demonstrate that it deposited receipts totaling more than \$1,000 within one business day, as required by state statute. The individual check amounts ranged from \$1,000 to \$51,777. MSA collected these checks for various purposes, including donations, tuition, orientation and mobility services, and third-party billings.

We identified differences between the check dates and the deposit dates that ranged from 2 to 22 days. MSA told us that it deposits checks the day it receives them; however, MSA does not have an internal control in place to document the receipt dates. Without the receipt dates, we could not verify that MSA deposited the checks within one business day.

For example, MSA received one check dated January 26, and deposited it seven days later on February 2. While it seems reasonable that MSA would receive a check in the mail seven days after it was dated, we could not determine when MSA actually received the check.

MSA received another check dated May 24, and deposited it 22 days later on June 15. MSA told us that it delayed depositing this check because it was a duplicate donation. Hormel Foods intended to donate \$5,000 to MSA, but inadvertently sent a \$5,000 check to MSA and a \$5,000 check to the Minnesota State Academy for the Blind Foundation. MSA delayed depositing the check so that Hormel could cancel the check; however, due to miscommunication, the check was not cancelled and MSA deposited both checks. The longer a deposit is delayed, the more likely receipts could be lost or stolen.

RECOMMENDATION

The Minnesota State Academies should strengthen its internal controls to ensure it documents the timely deposit of its receipts in accordance with state statutes.

Management Aide Reimbursements

MSA provides one-to-one instructional and behavioral management aide services to students who require these services. MSA reports these expenditures to the Minnesota Department of Education (MDE), which reimburses MSA.

MSA receives about \$3 million annually in reimbursements from MDE for management aide services. During the scope of the audit, MSA collected \$7,538,489.⁶² We compared

⁶² The audit period included a portion of school year 2020-2021, all of school years 2021-2022 and 2022-2023, and a portion of school year 2023-2024.

the expenditures MSA recorded in the state's accounting system to the expenditures MSA reported to MDE for the school years 2020-2021, 2021-2022, and 2022-2023.

FINDING 10

The Minnesota State Academies overreported its expenditures to the Minnesota Department of Education. As a result, the Minnesota Department of Education overpaid the Minnesota State Academies.

In the three school years completed during our audit period, MSA overreported management aide expenditures to MDE by a total of \$31,157. Specifically, MSA overreported \$3,953 in the 2020-2021 school year, \$11,285 in the 2021-2022 school year, and \$15,919 in the 2022-2023 school year.

MSA records management aide activities in the state's accounting system through employee payroll timesheets. Several times per year, MSA uses its payroll data to report management aide expenditures to MDE; however, MSA does not complete a reconciliation to ensure it has reported accurate data to MDE.

MDE uses the expenditure data reported by MSA to calculate the management aide reimbursement amount. By overreporting management aide expenditures to MDE, MSA received more management aide reimbursements than it should have received.

RECOMMENDATIONS

- **The Minnesota State Academies should accurately report expenditures to the Minnesota Department of Education.**
 - **The Minnesota State Academies should return to the Minnesota Department of Education the reimbursements received as a result of the overreported expenditures.**
 - **The Minnesota State Academies should strengthen its internal controls to ensure it accurately reports expenditures to the Minnesota Department of Education.**
-

Third-Party Billing

MSA provides health-related services to its students as part of a student's individualized education program (IEP). State statutes require all Minnesota school districts to request payment for IEP health-related services from public and private health insurers.⁶³

For students enrolled in a public health care program, MSA submits eligible health-related service claims to the Minnesota Department of Human Services (DHS)

⁶³ *Minnesota Statutes* 2023, 125A.21, subd. 2.

for reimbursement. DHS then reimburses MSA for the covered health-related services as described in a child's IEP.

During the scope of the audit, MSA collected 26 third-party billing reimbursements totaling \$583,039. We tested a random sample of eight third-party billing reimbursements.

FINDING 11

The Minnesota State Academies did not always properly document its reconciliation between its submitted medical claims and the reimbursements from the Department of Human Services.

For seven of the eight reimbursements tested, MSA was not reimbursed for the claimed amount.

Based on the documentation provided, for three of the reimbursements, MSA was overpaid a total of \$1,193, and for three other reimbursements, MSA was underpaid a total of \$14,389. For example, in one reimbursement, MSA submitted claims totaling \$12,117; however, DHS reimbursed MSA for claims totaling \$9,388.

For the seventh reimbursement, DHS paid MSA \$11,321 for a year-end adjustment payment. This payment was related to adjustments made by DHS to previously submitted claims.

For these seven reimbursements, MSA did not properly document its reconciliation between the claims it submitted and the reimbursement received. The variances we identified ranged from \$0.20 to \$11,321.

MSA provided us with documentation indicating it completed a reconciliation; however, MSA did not retain documentation of the claims reports from the time of submission. According to MSA, the claims reports at the time of submission were based on interim rates, and the claims reports provided to us were based on the final rates, which caused the variances identified.

Without a properly documented reconciliation, MSA cannot demonstrate that it was properly reimbursed for the health-related services provided.

RECOMMENDATIONS

- **The Minnesota State Academies should properly document its reconciliation of third-party billing claims submitted with the reimbursements it receives.**
 - **The Minnesota State Academies should strengthen its internal controls to ensure it receives accurate third-party billing reimbursements.**
-

Tuition

MSA charges tuition for out-of-state students who attend the academies. According to state statutes, “an applicant from another state...may be admitted to the academy if the admission does not prevent an eligible Minnesota resident from being admitted.”⁶⁴ MSA must obtain reimbursement from the other state for the cost of admission.⁶⁵

MSA creates a contract with the out-of-state school district to pay for the student’s tuition, residence, and other miscellaneous costs, such as transportation.

During the scope of the audit, MSA collected \$174,397 in tuition from five out-of-state school districts and two in-state school districts.⁶⁶ We tested a random sample of 3 and a judgmental sample, based on our analysis, of 4 of MSA’s 15 billings and found no issues.

Student Activity Fees

MSA collects activity fees from students who choose to participate in extracurricular activities, such as sports or the international studies club. MSA publishes the fee schedule in its Parent-Student Handbook.⁶⁷ The maximum amount that a family would be required to pay is \$500 per year.⁶⁸ State statutes require these fees to be spent only for MSA student activities.⁶⁹

During the scope of the audit, MSA collected \$128,613 in student activity fees. We tested these receipts and found no issues.

Orientation and Mobility Services

MSA provides orientation and mobility services to students in the Rochester School District and bills the district for those services. These services help students who are blind or visually impaired to travel safely and independently. MSA enters into a contract with the district that outlines the services MSA will provide, the hourly rate, and other reimbursable expenses, such as travel expenses. On a monthly basis, MSA bills the school district for the services performed.

During the scope of the audit, MSA collected \$90,622 on 22 billings. We tested a random sample of five of those billings and found no significant issues, which includes the resolution of a prior audit finding.⁷⁰

⁶⁴ *Minnesota Statutes* 2023, 125A.69, subd. 3.

⁶⁵ *Ibid.*

⁶⁶ MSA charged tuition to the Minneapolis Public School District and the Saint Paul Public School District for students to attend summer school at MSA.

⁶⁷ *Minnesota State Academies, Parent-Student Handbook*, 34.

⁶⁸ *Ibid.*

⁶⁹ *Minnesota Statutes* 2023, 125A.72, subd. 1.

⁷⁰ Office of the Legislative Auditor, Financial Audit Division, *Minnesota State Academies: Internal Controls and Compliance Audit, July 2009 through January 2013* (St. Paul, 2013), 9.

Donations

State statutes authorize the commissioner of Minnesota Management and Budget “to receive and accept, on behalf of the state, any gift, bequest, devise, or endowment...for the benefit of the state, or any of its departments or agencies....”⁷¹ Under this statute, MSA must obtain approval from Minnesota Management and Budget prior to accepting donations of any size.

MSA accepts donations from individuals, corporations, and its two related foundations. Donors may restrict the use of their donated funds for specific purposes, such as scholarships or to help fund an international studies trip, or they may make a general donation to the academies.

During the scope of the audit, MSA accepted 58 donations totaling \$54,924.⁷² We tested a random sample of 14 donations and a judgmental sample of 20 donations to determine if MSA accepted gifts in accordance with state statutes.

FINDING 12

The Minnesota State Academies did not always obtain approval from Minnesota Management and Budget prior to accepting donations, as required by state statutes.

MSA did not obtain approval from Minnesota Management and Budget (MMB) for 22 donations totaling \$8,378. These 22 donations ranged from \$5 to \$5,000. Nineteen of these donations were less than \$100 and three of these donations were more than \$100.

Donations Under \$100

MSA recorded 16 donations in the state’s accounting system for less than \$100 each. MSA did not obtain approval from MMB for these donations.

MSA recorded three donations in the state’s accounting system for more than \$100; however, these donations consisted of several smaller donations from multiple individuals.

One donation in the accounting system consisted of five individual donations totaling \$635. MSA only obtained approval from MMB for the individual donations over \$100. For the other two donations totaling \$277 and \$2,000, one individual collected money from multiple individuals and made a joint donation on their behalf. MSA told us they did not obtain approval from MMB because no individual donated over \$100.

⁷¹ *Minnesota Statutes* 2023, 16A.013, subd. 1.

⁷² This included 42 donations recorded for more than \$100 and 16 donations recorded for less than \$100.

MSA does not have a documented gift acceptance policy; however, their practice is to only obtain approval from MMB for individual donations over \$100. State statutes and state policy require MMB approval for all donations, regardless of amount.⁷³

Donations Over \$100

For the remaining three donations, MSA recorded two donations in the state's accounting system for \$150 and \$200. These donations were individual checks for more than \$100; however, MSA did not obtain approval from MMB to accept these donations. MSA told us it did not obtain approval for these donations because one donation was from the MSA Alumni Association, and MSA did not have contact information for the other donor; however, the purpose of the approval is to ensure the donation is in the interest of the state.

The third donation was a \$5,000 donation MSA received from Hormel Foods via the Minnesota State Academies for the Blind Foundation. MSA received a donation directly from Hormel and obtained approval from MMB to accept the donation.

Hormel mistakenly issued a second \$5,000 donation to the Minnesota State Academies for the Blind Foundation, and the foundation sent the donation to MSA. MSA identified this as a duplicate donation and contacted Hormel, which authorized both donations rather than canceling one; however, MSA did not obtain approval from MMB to accept the second donation.

MSA has internal controls in place to obtain approval from MMB for donations over \$100; however, MSA did not follow the controls for these three donations. Not obtaining approval from MMB for donations increases the risk that MSA may collect donations that are inappropriate or not in the best interest of the state.

RECOMMENDATIONS

- **The Minnesota State Academies should obtain approval from Minnesota Management and Budget prior to accepting all donations, as required by state statutes.**
 - **The Minnesota State Academies should strengthen its internal controls to ensure it accepts donations in accordance with state statutes.**
-

⁷³ *Minnesota Statutes* 2023, 16A.013, subd. 1; and Minnesota Management and Budget, Statewide Operating Policy 0602-12, *Gift Acceptance*, issued May 15, 2014.

Student Bank Accounts

MSA administers bank accounts for students' personal use. Parents or students may deposit money into their personal account and students may withdraw money for personal uses, such as purchases on field trips. MSA requires additional approval for student withdrawals exceeding \$20.

MSA finance staff maintain the personal bank accounts for each individual student. MSA finance staff collect the deposits from the parents or students, record the deposits to the student's personal account, and distribute withdrawals when requested by the student. MSA also records deposits and a summary of daily withdrawals in the state's accounting system.

During the scope of the audit, MSA collected and deposited \$21,594 into student bank accounts and distributed \$18,813 from student bank accounts. We tested a random sample of 31 of 131 daily withdrawals and 2 judgmental samples, based on our analysis, and found no issues.

Rental Income

MSA offers the use of its campus facilities, such as the gym or auditorium, for public uses. MSA collects rental income from the use of campus facilities and for a lease of farmland. During the scope of the audit, MSA entered into an agreement with one organization for the monthly use of the campus gym, and several other agreements for the one-time rental of campus facilities. MSA also entered into a five-year contract to lease farmland.

During the scope of the audit, MSA collected \$16,858 in rental income. We compared all rental income receipts to the rental agreements and found no issues.

Miscellaneous Receipts

MSA collects other miscellaneous receipts from various sources, such as for sales or services performed. For example, MSA sells meal tickets for the cafeteria to staff and students, and operates work-study programs where students sell crafts. MSA also charges for services performed, such as providing driver's education for students or providing sign language proficiency evaluations for teachers.

During the scope of the audit, MSA collected \$55,492 from these various sources. We analyzed these receipts and found no issues.



MINNESOTA STATE ACADEMIES FOR THE DEAF AND THE BLIND

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October 30, 2024

Judy Randall
Legislative Auditor
140 Centennial Building
658 Cedar Street
St. Paul, MN 55155

Dear Auditor Randall,

Thank you for the opportunity to review and comment on the findings and recommendations from the recent audit of the Minnesota State Academies for the Deaf and the Blind internal controls for the time period July 1, 2021, through December 31, 2023. We want to thank you and your team for your thorough review of our internal controls and processes. We always welcome the opportunity for feedback and are committed to implementing organizational changes to improve and strengthen our internal controls.

Please accept these responses to the findings and recommendations in the current audit report:

Finding 1:

The Minnesota State Academies' site councils did not meet in accordance with their bylaws.

Recommendations:

- The Minnesota State Academies' site councils should meet in accordance with their bylaws.
- The Minnesota State Academies' governing board should ensure that the site councils meet in accordance with their bylaws.

MSA Response:

The Minnesota State Academies (MSA) accepts this finding and will comply with the recommendations. We appreciate that you have recognized that we made efforts during the period of the audit to improve our site councils' bylaws and membership to improve the challenges we have faced with getting a quorum for scheduled meetings.

Recent changes at MSA during the audit: The MSAB/MSAD site councils and governing board approved new bylaws in May 2024, and have resumed scheduling monthly meetings for the 2024-2025 school year. In August 2024, new site council staff members were appointed to their respective councils to ensure attendance at the scheduled meetings. In September 2024, there was a joint Site Council meeting held to review the Site Council bylaws and welcome new members.

Going forward, MSA will ensure monthly site council meetings are scheduled regardless of quorum. However, decisions will not be made unless the quorum is met. If the quorum is not met, the meeting will be restricted to informational items only so that we comply with

MSA empowers every student to achieve, care, and thrive in an ever-changing world.

Minnesota Open Meeting Laws. If quorum is not met for two consecutive scheduled meetings, the concern will be brought to the attention of the governing board for discussion to ensure future meetings can be scheduled and quorum met.

Persons Responsible for Implementation: Terry Wilding, Superintendent, MSAB/MSAD Directors, and MSA Governing Board

Date Projected for Completion: The Minnesota State Academies' site councils have meetings scheduled monthly for the 2024-2025 school year. Site Council monthly meetings have resumed, and their meeting minutes will continue to be monitored to ensure compliance with their bylaws.

Finding 2:

The Minnesota State Academies did not monitor the financial and legal activities of its affiliated foundations, as required by the contracts.

Recommendations:

- The Minnesota State Academies should monitor the financial and legal activities of its affiliated foundations, as required by the contracts.
- The Minnesota State Academies should strengthen its internal controls to ensure it monitors the financial and legal activities of its affiliated foundations.

MSA Response:

The Minnesota State Academies (MSA) accepts this finding and will comply with the recommendations.

MSA will designate one school administrator for each foundation to act as the liaison between MSAB/MSAD and their respective foundation. This administrator will be responsible for attending their respective foundation meetings and ensure a copy of the meeting minutes is filed with the MSA Fiscal Services director for review. The Fiscal Services director will review both foundations' contracts, meeting minutes, and annual reports to ensure the proper documentation is received and maintained in accordance with their respective contracts.

Additional information: The MSAB foundation is considering its future and may not continue their operations. If this is the case, we will obtain final documentation of their fund disbursements for record keeping.

Persons Responsible for Implementation: Amber Miller, Fiscal Services Director

Date Projected for Completion: The Fiscal Services director has begun communication with the Superintendent and MSA department supervisors to determine the respective liaison for each foundation. The respective liaisons will be assigned by December 2024 and will work with the Fiscal Services director to establish working procedures to ensure timely communication and sharing of documentation. MSA will fully implement its procedure and complete documentation by the Spring of 2025.

Finding 3:

The Minnesota State Academies did not process payroll in accordance with state policy.

Recommendations:

- The Minnesota State Academies should process payroll in accordance with state policy.
- The Minnesota State Academies should strengthen its internal controls to ensure it processes payroll in accordance with state policy.

MSA Response:

The Minnesota State Academies (MSA) accepts this finding and will comply with the recommendations.

The MSA Fiscal Services director will work closely with the payroll coordinator and department supervisors to identify areas of need for training for staff to ensure they are able to complete their payroll accurately and on time in accordance with state policy.

Additionally, the Fiscal Services director and payroll coordinator will also work with each department supervisor to identify areas of need for training for them to be able to complete their payroll departments in accordance with state policy.

The Fiscal Services director and payroll coordinator will monitor weekly payroll reports to identify patterns and potential needs for additional training and/or communication throughout the year to ensure all staff can complete their payroll in accordance with state policy.

The Fiscal Services director and payroll coordinator will work with department supervisors to review and update their payroll procedures and timelines as needed to ensure compliance with state policy for processing payroll.

The Fiscal Services director will review on a bi-monthly schedule department assignments and ensure department supervisors are up-to-date, and proper controls are in place for those assigned to the department they are in.

Persons Responsible for Implementation: Amber Miller, Fiscal Services Director, Payroll Coordinator, All Supervisors at MSA

Date Projected for Completion: The MSA Fiscal Services Director and department supervisors have started proactively discussing payroll processing concerns and are continuously working together to implement improvements to the overall payroll procedures for staff to ensure that payroll is processed in accordance with state policy. This is a continued work in progress, but we anticipate seeing an improvement in the accuracy and completion of staff time entries by the start of the 2025-2026 school year.

Finding 4:

The Minnesota State Academies did not always purchase goods or services in accordance with state policy.

Recommendations:

- The Minnesota State Academies should purchase goods or services in accordance with state policy.

- The Minnesota State Academies should strengthen its internal controls to ensure it complies with state policy.

MSA Response:

The Minnesota State Academies (MSA) accepts this finding and will comply with the recommendations.

Recent changes at MSA during the audit: The MSA Fiscal Services director and accounting officer updated their internal order form at the start of the new fiscal year in July 2024 to include a section for documentation of how and when price quotes were obtained. The accounting officer will not proceed with any purchasing requests without documented price quote information and written supervisor approval on the submitted order form.

Persons Responsible for Implementation: Amber Miller, Fiscal Services Director, Patty Rux, Accounting Officer

Date Projected for Completion: The Fiscal Services director and accounting officer implemented a new internal order form at the beginning of Fiscal Year 2025 to document price quotes and ensure written supervisor approval prior to proceeding with any requests. The implementation of this new internal form has already begun and will continue to be monitored for improved efficiency.

Finding 5:

The Minnesota State Academies superintendent approved his own travel.

Recommendations:

- The Minnesota State Academies should require someone other than the superintendent to approve his travel.

MSA Response:

The Minnesota State Academies (MSA) accepts this finding and will comply with the recommendations. Previously, we were instructed that, as the agency head, the superintendent could approve his own travel. We agree that additional internal controls are needed and will be improving our process at MSA to include additional approval by the MSA board for the superintendent's travel.

Recent changes at MSA during the audit: In August, the MSA board revised the procedure for all out-of-state travel to include the requirement of board approval (which includes all out-of-state travel for the superintendent).

Going forward, the chair of the MSA board will also approve and sign off on any in-state travel requests and reimbursements for the superintendent.

Persons Responsible for Implementation: MSA Governing Board; MSA Board Chair

Date Projected for Completion: The procedure for out-of-state travel has been implemented since August of 2024. The MSA board chair will begin reviewing and approving the superintendent's in-state travel expenses in November of 2024.

Finding 6:

The Minnesota State Academies did not always comply with state policy when paying for the superintendent's travel expenses.

Recommendations:

- The Minnesota State Academies should pay travel expenditures only in accordance with state policy.
- The Minnesota State Academies should collect, from the superintendent, the state money used for personal travel.
- The Minnesota State Academies should strengthen its internal controls to ensure it pays for travel in accordance with state policy.

MSA Response:

The Minnesota State Academies (MSA) accepts this finding and will comply with the recommendations to improve documentation and approval of the superintendent's travel expenses. The superintendent will reimburse MSA for any expenses incurred for personal travel.

Recent changes at MSA during the audit: In August, the MSA board revised the procedure for out-of-state travel to include the requirement of board approval (which also includes all out-of-state travel for the superintendent). MSA also established a new procedure (#4401 – established January 23, 2024) related to employees who extend their work-related travel to become personal travel/vacation with specific steps to ensure that state funds are not expended towards personal travel expenses.

Going forward, the chair of the MSA board will also approve and sign off on any in-state travel requests and reimbursements for the superintendent. For any future travel requests and reimbursements involving the superintendent and/or any other MSA employees, agendas and additional documentation supporting the travel will be collected and filed in addition to the out of state travel request and special expense forms.

The Fiscal Services director will review the travel expenditures that were referenced to be for personal travel and will work with Minnesota Management and Budget along with the Office of the Legislative Auditors to clarify and confirm the state dollars used for personal travel to be collected.

For any future trips that involve work-personal travel, the Fiscal Services director will review the expenditures to ensure that no state money has been used for personal travel. If any discrepancies are noted, the employees will reimburse MSA for expenses incurred for personal travel.

Persons Responsible for Implementation: Amber Miller, Fiscal Services Director; MSA Governing Board; MSA Board Chair

Date Projected for Completion: January 2025

Finding 7:

The Minnesota State Academies did not document that it managed its Imprest cash accounts in

accordance with its policy.

Recommendations:

- The Minnesota State Academies should document that it manages its Imprest cash accounts in accordance with its policy.
- The Minnesota State Academies should strengthen its internal controls to ensure it manages its Imprest cash accounts in accordance with its policy.

MSA Response:

The Minnesota State Academies (MSA) accepts this finding and will comply with the recommendations. We appreciate that you have recognized changes at MSA that have been implemented during the process of completing the audit.

Recent changes at MSA during the audit: The MSA Fiscal Services department implemented a new procedure requiring written preapprovals for all petty cash expenses prior to reimbursing staff. The Fiscal Services department will not reimburse staff through petty cash without the written preapprovals to ensure the reimbursement request is necessary and allowable per its policy. The Fiscal Services director will review all supporting documentation with the petty cash log to ensure written preapproval was received and all reimbursements are in accordance with its policy prior to approving the replenishment of the petty cash account.

Persons Responsible for Implementation: Fiscal Services department - Amber Miller, Patty Rux, and Sara Vollbrecht

Date Projected for Completion: The Fiscal Services department implemented its new procedure in the Fall of 2024 requiring written preapprovals for all petty cash expenses prior to reimbursing staff.

Finding 8:

The Minnesota State Academies did not manage its assets in accordance with state policy and did not keep an accurate record of its physical inventory.

Recommendations:

- The Minnesota State Academies should manage its assets in accordance with state policy and keep an accurate record of its physical inventory.
- The Minnesota State Academies should develop internal policies and procedures to ensure it manages its assets in accordance with state policy.

MSA Response:

The Minnesota State Academies (MSA) accepts this finding and will comply with the recommendations.

The MSA Fiscal Services department has begun updating MSA's policies and procedures for overseeing and managing our inventories and the audit recommendations will be included in those updates. The Fiscal Services department will assign one of its staff to manage the process and ensure that our inventories are done in accordance with state policy. Documentation of completed inventories will be downloaded and saved and/or printed and a copy will be

provided and filed within the Fiscal Services department.

Persons Responsible for Implementation: Fiscal Services staff, Central Supply staff, IT staff

Date Projected for Completion: The MSA Fiscal Services department has begun updating MSA's policies and procedures for overseeing and managing our inventories with the intent for it to be fully implemented and executed by the Fall of 2025.

Finding 9:

The Minnesota State Academies did not document the timely deposit of its receipts.

Recommendation:

- The Minnesota State Academies should strengthen its internal controls to ensure it documents the timely deposit of its receipts in accordance with state statutes.

MSA Response:

The Minnesota State Academies (MSA) accepts this finding and will comply with the recommendations.

Recent changes at MSA during the audit: In the fall of 2024, the Fiscal Services department implemented the use of a deposit log to document the date and time for all funds received. All funds received by the Fiscal Services department will be entered into the log and stored in the secured safe within the locked closet until the date of deposit. The log will then be attached to the deposit documentation that includes all funds received to show the timeliness of the deposited funds.

Persons Responsible for Implementation: Fiscal Services department - Amber Miller, Patty Rux, and Sara Vollbrecht

Date Projected for Completion: The implementation of the deposit log has already begun and will continue to be utilized and monitored for improved efficiency.

Finding 10:

The Minnesota State Academies overreported its expenditures to the Minnesota Department of Education. As a result, the Minnesota Department of Education overpaid the Minnesota State Academies.

Recommendations:

- The Minnesota State Academies should accurately report expenditures to the Minnesota Department of Education.
- The Minnesota State Academies should return to the Minnesota Department of Education the reimbursements received as a result of the overreported expenditures.
- The Minnesota State Academies should strengthen its internal controls to ensure it accurately reports expenditures to the Minnesota Department of Education.

MSA Response:

The Minnesota State Academies (MSA) accepts this finding and will comply with the recommendations.

The MSA Fiscal Services director will work with Minnesota Management and Budget to verify the reporting tools utilized to report its expenditures to ensure the accuracy of the data reported. The Fiscal Services director will work with the Minnesota Department of Education to return overreported expenditures.

The Fiscal Services director will complete a reconciliation of the data extracted from the state accounting system to financial expenditure reports prior to finalizing the submission to the Minnesota Department of Education. The Fiscal Services director will share this reconciliation with the director of Student Support Services to verify and ensure its accuracy.

Persons Responsible for Implementation: Amber Miller, Fiscal Services Director; Brittany Thomforde, Director of Student Support Services.

Date Projected for Completion: The Fiscal Services director will work with Minnesota Management and Budget on the accuracy of its reporting tools and implement the reconciliation process with the completion of its reporting for the 2023-2024 school year during the month of November 2024.

The Fiscal Services director will work with the Minnesota Department of Education on the process for returning overreported expenditures and anticipates this to be completed by January 2025.

Finding 11:

The Minnesota State Academies did not always properly document its reconciliations between its submitted medical claims and the reimbursements from the Department of Human Services.

Recommendations:

- The Minnesota State Academies should properly document its reconciliation of third-party billing claims submitted with the reimbursements it receives.
- The Minnesota State Academies should strengthen its internal controls to ensure it receives accurate third-party billing reimbursements.

MSA Response:

The Minnesota State Academies (MSA) accepts this finding and will comply with the recommendations. We appreciate that you have recognized the complexity of reconciliation and the lengthy process of ensuring that all proper reimbursements are obtained.

The Health Services director and Third-Party Billing coordinator have initiated and begun implementation of a new procedure for billing claims and reimbursements to ensure proper documentation and increased controls. All supporting documentation referenced during the reconciliation of third-party billing claims will now be downloaded and/or printed and saved with the reconciliation report. Upon completion of the reconciliation report a summary worksheet will be shared with the Health Services director and the Fiscal Services director to show confirmation of the reconciliation and expected reimbursement. The Health Services director and Third-Party billing coordinator will continue to monitor and review the procedure and modify as needed for continued improvement.

Persons Responsible for Implementation: Kimberly Viskocil, Director of Health Services;

Karlene Bleninger¹, Third-Party Billing Coordinator

Date Projected for Completion: The new procedure with increased documentation and internal controls was initiated and implemented in the Fall of 2024.

Finding 12:

The Minnesota State Academies did not always obtain approval from Minnesota Management and Budget prior to accepting donations, as required by state statutes.

Recommendations:

- The Minnesota State Academies should obtain approval from Minnesota Management and Budget prior to accepting all donations, as required by state statutes.
- The Minnesota State Academies should strengthen its internal controls to ensure it accepts donations in accordance with state statutes.

MSA Response:

The Minnesota State Academies (MSA) accepts this finding and will comply with the recommendations.

The Fiscal Services department will ensure that a gift acceptance form is submitted to Minnesota Management and Budget for all donations made to MSA regardless of the value. MSA will seek approval before accepting gifts.

The Fiscal Services department will review all donations received on a quarterly basis to ensure that a completed gift acceptance form is on file. During this review, the forms will be reviewed to confirm the approval or denial of the donation by Minnesota Management and Budget. If any donation is denied by Minnesota Management and Budget, the funds will be refunded.

Persons Responsible for Implementation: Fiscal Services department - Amber Miller, Patty Rux, and Sara Vollbrecht

Date Projected for Completion: The Fiscal Services department implemented changes to its internal procedure in the Spring of 2024 to ensure that a gift acceptance form is submitted to Minnesota Management and Budget for all donations received regardless of value. The quarterly review of gift acceptance forms will begin in January 2025.

Thank you again for the opportunity to respond to the OLA's report. The Minnesota State Academies are committed to strengthening our internal controls and improving our documentation system to ensure we are working in accordance with state policy and the best interest of the State of Minnesota.

Sincerely,

/s/ Terry Wilding

Terry Wilding
Minnesota State Academies Superintendent

Cc: Amber Miller, Fiscal Services Director



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