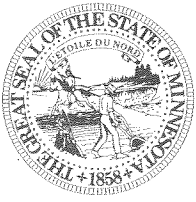


**INDIAN AFFAIRS COUNCIL  
FINANCIAL AND COMPLIANCE AUDIT  
FOR TWO YEARS ENDED JUNE 30, 1985**

**MAY 1986**

**Financial Audit Division  
Office of the Legislative Auditor  
State of Minnesota**





STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

VETERANS SERVICE BUILDING, ST. PAUL, MN 55155 • 612/296-4708

JAMES R. NOBLES, LEGISLATIVE AUDITOR

Senator Randolph W. Peterson, Chairman  
Legislative Audit Commission,

Members of the Legislative Audit Commission,

Hartley White, Chairman  
Indian Affairs Council,

Roger Head, Executive Director  
Indian Affairs Council

Audit Scope

We have completed a financial and compliance audit of the Indian Affairs Council for the two years ended June 30, 1985. Section I includes a brief description of the Indian Affairs Council activities and finances. Our audit was made in accordance with generally accepted auditing standards and the standards for financial and compliance audits contained in the U.S. General Accounting Office Standards for Audit of Governmental Organizations, Programs, Activities, and Functions, and accordingly, included such audit procedures as we considered necessary in the circumstances. Field work was completed on March 7, 1986.

The objectives of the audit were to:

- study and evaluate major internal control systems, including a review of receipts, payroll, other administrative expenditures, and fixed assets;
- verify that financial transactions were made in accordance with applicable laws, regulations, and policies, including Minn. Stat. Section 3.922, Section 116J.64, and other finance-related laws and regulations;
- verify that financial transactions were properly recorded on the Statewide Accounting (SWA) System; and
- determine the status of prior audit recommendations.

The management of the Indian Affairs Council is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgements by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to

Senator Randolph W. Peterson, Chairman  
Members of the Legislative Audit Commission,  
Hartley White, Chairman  
Roger Head, Executive Director  
Page 2

the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

The management of the Indian Affairs Council is also responsible for the agency's compliance with laws and regulations. In connection with our audit, we selected and tested transactions and records from the programs administered by the Indian Affairs Council. The purpose of our testing of transactions was to obtain reasonable assurance that the Indian Affairs Council had, in all material respects, administered their programs in compliance with applicable laws and regulations.

### Conclusions

In our opinion, except for the issue raised in Section II recommendation #2, the Indian Affairs Council's system of internal accounting control in effect on June 30, 1985, taken as a whole, was sufficient to provide management with reasonable, but not absolute assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorizations.

In our opinion, except for the issues raised in Section II recommendation #1, for the two years ended June 30, 1985, the Indian Affairs Council administered its programs in compliance, in all material respects, with applicable finance-related laws and regulations.


In our opinion, for the two years ended June 30, 1985, the Indian Affairs Council properly recorded, in all material respects, its financial transactions on the statewide accounting system.

This audit report includes both the recommendations developed during this audit and reiteration of our prior audit recommendations which have not yet been implemented. Prior audit recommendations repeated in this report are denoted under the caption "PRIOR RECOMMENDATIONS NOT IMPLEMENTED."

The recommendations included in this report are presented to assist the Indian Affairs Council in improving accounting procedures and controls. We will be monitoring and reviewing the Indian Affairs Council's progress on implementing these recommendations. A summary of the progress made on all audit recommendations discussed in our last audit report covering the two years ended June 30, 1980, dated May 26, 1981 is shown in Section III entitled "Status of Prior Audit Recommendations and Progress Toward Implementation."

We would like to thank the Indian Affairs Council staff for their cooperation during this audit.

  
James R. Nobles  
Legislative Auditor

  
John Asmussen, CPA  
Deputy Legislative Auditor

May 5, 1986

## INDIAN AFFAIRS COUNCIL

### TABLE OF CONTENTS

|  | <u>Page</u> |
|--|-------------|
| I. INTRODUCTION  | 1           |
| II. CURRENT FINDINGS AND RECOMMENDATIONS   | 2           |
| III. STATUS OF PRIOR AUDIT RECOMMENDATIONS AND PROGRESS<br>TOWARD IMPLEMENTATION | 4           |
| AGENCY RESPONSE  | 6           |

### AUDIT PARTICIPATION

The following members of the Office of the Legislative Auditor participated in this audit:

|                    |                            |
|--------------------|----------------------------|
| John Asmussen, CPA | Deputy Legislative Auditor |
| Tom Donahue        | Audit Manager              |
| Lori Pellicci      | Auditor-In-Charge          |

### EXIT CONFERENCE

An exit conference was held with the following Indian Affairs Council staff on March 11, 1986:

Roger Head, Executive Director  
George Baptiste, Administrative Assistant



## INDIAN AFFAIRS COUNCIL

### I. INTRODUCTION

The Indian Affairs Council (IAC), formerly the Indian Affairs Intertribal Board, was created by the legislature in 1963. The Council membership consists of the elected chairman of each of the eleven tribal governments in the state, two at large members elected by Indian residents of Minnesota, and several ex-officio members. In addition, legislation enacted in 1976 created an Urban Advisory Council to advise the Indian Affairs Council on problems and concerns of urban Indians.

The Council advises the legislature and state agencies on the nature of tribal governments, the relationship of tribal governments to the Indian people of Minnesota, and on other Indian affairs issues. The Council also administers the Indian Business Loan Program which offers Minnesota-based Indians the opportunity to establish or expand a business enterprise in Minnesota and provides the resources for management or technical assistance.

The Council operations are financed primarily through appropriations from the General Fund. During fiscal years 1985 and 1984, General Fund expenditures were \$250,169 and \$242,632, respectively.

The current IAC chairman is Hartley White. The Council appointed Roger Head, the current executive director, in 1981. The Council maintains staff and office space in Bemidji and St. Paul.

## INDIAN AFFAIRS COUNCIL

### II. CURRENT FINDINGS AND RECOMMENDATIONS

The Indian Affairs Council is not following the 25 percent maximum participation rate specified in the Rules Governing Business Loans to Indians.

The Indian Affairs Council (IAC), administers the Business Loan Program which offers Minnesota-based Indians the opportunity to establish or expand a business enterprise or obtain management or technical assistance. The program is funded from taxation of severed mineral interests under Minn. Stat. Section 273.165. Indians interested in applying for a loan through this program must submit an application to the IAC, which in turn sends it to the appropriate Tribal Council for approval or disapproval.

Currently, five of the eleven Tribal Councils participate in the Business Loan Program. Of the five participating Tribal Councils, we noted two that follow the maximum participation rate of 25 percent; however, two have a rate of 75 percent or over, and one bases the rate on the size of the loan. Rule 5100.0900 under Chapter 5100, Rules Governing Business Loans to Indians, states that [the] "Maximum participation in any one loan will be 25 percent of the project cost." While the rule states adherence to a 25 percent maximum participation rate, the IAC has allowed higher participation rates. If the IAC believes the current maximum participation rate is inappropriate, it should seek a change through the rule-making process.

#### RECOMMENDATION:

1. *The Indian Affairs Council should either adhere to the uniform participation rate specified by rule or begin the rule-making process to change it.*

PRIOR RECOMMENDATION NOT IMPLEMENTED: The Council should take a physical inventory, affix asset numbers to state property, and periodically update the state fixed asset inventory listing.

The Indian Affairs Council uses the Department of Administration's Fixed Asset Record Management (FARM) system to record their fixed assets. The FARM listing records asset location, acquisition date, cost, asset number, and net book value. We identified the following fixed asset control problems:

- the FARM listing is not updated on a timely basis for additions, deletions, and location changes of fixed assets; and
- a physical inventory of fixed assets has not been taken for many years.



## INDIAN AFFAIRS COUNCIL

The fixed asset user's manual recommends either periodic spot-checking or an annual inventory be completed for fixed assets. It requires the timely update of agency records for additions, deletions, location changes and discrepancies arising from physical inventories. It also requires that items that have been or should be scrapped be removed from the list. Of the 64 items selected off the FARM listing, 19 items or 30 percent could not be found. In addition, items were located that did not appear on the FARM listing.

While it may not be practical to perform a complete physical inventory of IAC assets each year, it is important to perform periodic spot-checks to ensure record accuracy. Because of the number of errors noted on the FARM listing and those items found that were not on the listing, we believe a complete physical inventory is necessary. Periodic spot-checks taken after the physical inventory should provide IAC with the necessary information to help ensure accurate inventory records.

### *RECOMMENDATION:*

2. *The Indian Affairs Council should take a complete physical inventory of both its offices in St. Paul and Bemidji and perform periodic spot-checks of inventory and inventory records thereafter.*

## INDIAN AFFAIRS COUNCIL

### III. STATUS OF PRIOR AUDIT RECOMMENDATIONS AND PROGRESS TOWARD IMPLEMENTATION

Donald Gurnoe, Jr., the former Executive Director, incurred travel expenses under conditions which were not in accordance with state regulations.

1. The Minnesota Indian Affairs Council should take necessary action to recover \$560 from Donald Gurnoe, Jr. for improper living and travel expenses.

*Recommendation Implemented. On June 11, 1981, the Indian Affairs Council received \$560 from Donald Gurnoe, Jr. through a payroll refund.*

Internal control over the payroll function could be strengthened if certain duties were segregated.

2. Someone who is not involved in preparing or approving the payroll rosters should receive and distribute the payroll checks.

*Recommendation Implemented. Since fiscal year 1983 more than one person has been involved in the payroll procedures.*

The Council has not taken formal action annually to elect officers as is required by statute.

3. The Council should, by formal action, annually elect officers and record such action in the official minutes of the Council meetings.

*Recommendation Implemented. Since fiscal year 1982 annual elections have been held and documented in the minutes.*

Payments to vendors for lodging were not always verified to the employee's expense report.

4. All charges from lodging vendors should be verified by the person who received the services or to his records before payment is made.

*Recommendation Implemented. Lodging invoices are now verified to employee expense vouchers.*

INDIAN AFFAIRS COUNCIL

Permanent employees should not be paid for sick leave before it is earned.

5. Leave of absence without pay should be granted upon the request of a permanent employee who has exhausted all accrued sick leave, instead of paying an employee for sick leave not earned.

*Recommendation Implemented. Testing of leave balances did not reveal any leave used before it was earned.*

The Council should take an annual physical inventory, affix asset numbers to state property, and periodically update the state property inventory record.

6. The Council should take an annual physical inventory, affix identification stickers with numbers to state property, and periodically update the SPI listing.

*RECOMMENDATION NOT IMPLEMENTED. See current recommendation #2.*



State of Minnesota

## INDIAN AFFAIRS COUNCIL

127 University Avenue  
St. Paul, Minnesota 55155  
Phone: (612) 296-3611

1819 Bemidji Avenue  
Bemidji, Minnesota 56601  
Phone: (218) 755-3825

May 5, 1986

Mr. James R. Nobles  
Legislative Auditor  
Veterans Service Building  
20 West 12th Street  
St. Paul, MN 55155

Dear Mr. Nobles:

This letter is a response to your Audit Report of our Agency operations for the years ended June 30, 1985.

### RECOMMENDATIONS:

Recommendation No. 1, Page 2.

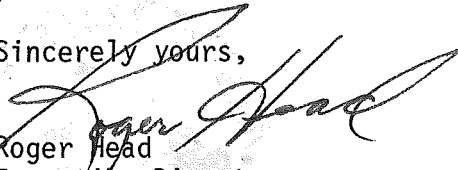
1. The Indian Affairs Council is requesting the Attorney General to draft new rules for a maximum participation rate to be followed by Tribal Councils when approving applications for loans under the Indian Business Loan Program.

Recommendation No. 2, Page 3.

2. The Indian Affairs Council has undertaken the physical inventory of both its offices in St. Paul and Bemidji and assets will be purged that have undergone previous surplus determination and have gone to auction. The updating of inventory records will ensure that assets are retired from inventory listings and only those that are physically inventoried will appear on inventory listings. Asset numbers will be affixed to state property and periodic spot checks of assets will be performed hereafter.

Thank you for calling these procedural deficiencies to our attention. All of your oral recommendations are now being complied with.

Sincerely yours,

  
Roger Head  
Executive Director

GB/lk