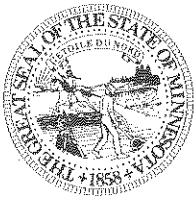


**MINNESOTA MUNICIPAL BOARD
FINANCIAL AND COMPLIANCE AUDIT
FOR THE THREE YEARS ENDED JUNE 30, 1986**

AUGUST 1986

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



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

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JAMES R. NOBLES, LEGISLATIVE AUDITOR

Senator Randolph W. Peterson, Chairman
Legislative Audit Commission

Members of the Legislative Audit Commission

Kenneth Sette, Chairman
Minnesota Municipal Board

Members of the Minnesota Municipal Board

Terrence Merritt, Executive Director
Minnesota Municipal Board

Audit Scope

We have completed a financial and compliance audit of the Minnesota Municipal Board for the three years ended June 30, 1986. Section I provides a brief description of the board's 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 July 8, 1986.

The audit objectives were to:

- study and evaluate agency internal control systems, including payroll, per diem payments, administrative disbursements, receipts, and fixed assets;
- verify that financial transactions were made in accordance with applicable laws, regulations, and policies, including Minn. Stat. Chapter 414, and other finance-related laws and regulations; and
- verify that financial transactions were properly recorded in the statewide accounting system.

Management Responsibility

The management of the Minnesota Municipal Board 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.

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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 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 Minnesota Municipal Board is also responsible for the board's compliance with laws and regulations. In connection with our audit, we selected and tested transactions and records of the Minnesota Municipal Board. The purpose of our testing of transactions was to obtain reasonable assurance that the Minnesota Municipal Board had, in all material respects, complied with applicable laws and regulations.

Conclusions

In our opinion, except for the issues raised in Recommendations 3-5 in Section II of this report, the system of accounting control of the Minnesota Municipal Board in effect as of June 30, 1986 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 Recommendations 1-2 in Section II of this report, for the three years ended June 30, 1986, the Minnesota Municipal Board complied, in all material respects, with applicable finance-related laws and regulations.

In our opinion, for the three years ended June 30, 1986 the Minnesota Municipal Board properly recorded, in all material respects, its financial transactions in the statewide accounting system.

The recommendations included in this audit report are presented to assist the board in improving accounting procedures and controls. We will be monitoring and reviewing the Minnesota Municipal Board's progress on implementing these recommendations.

We would like to thank the Minnesota Municipal Board staff for their cooperation during this audit.


James R. Nobles
Legislative Auditor


John Asmussen, CPA
Deputy Legislative Auditor

August 12, 1986

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AUDIT PARTICIPATION

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

John Asmussen, CPA	Deputy Legislative Auditor
Claudia Gudvangen, CPA	Audit Manager
Alan Finlayson, CPA	Auditor-in-Charge

EXIT CONFERENCE

The findings and recommendations in this report were discussed with the following officials of the Minnesota Municipal Board at an exit conference which was held on July 11, 1986:

Terrence Merritt	Executive Director
Patricia Lundy	Assistance Executive Director

MINNESOTA MUNICIPAL BOARD

I. INTRODUCTION

The Minnesota Municipal Board (Municipal Board) operates under Minn. Stat. Chapter 414 for the purpose of conducting proceedings and issuing orders for the creation of a municipality, the combination of two or more governmental units, or the alteration of a municipal boundary. The board consists of three members appointed by the governor for six-year terms. One of the members must be learned in law, and one must be a resident from outside the metropolitan area as defined in Minn. Stat. Section 473.02. For certain proceedings, two county commissioners from the county in which all or a majority of the affected land is located also serve as board members.

Board members receive \$50 per day and reimbursement of travel expenses when engaged in the performance of their duties. County commissioners receive \$25 per day and reimbursement of travel expenses for each hearing or meeting attended. Per diem payments totalled \$22,650 in the year ended June 30, 1986.

The board appoints an executive director who must be learned in law. The current executive director, Terrence Merritt, has served since January 2, 1979. The executive director manages the administrative matters of the board, conducts hearings, and reports evidence to the board. He has a staff of three to assist him in the performance of his duties.

The Municipal Board is funded by a General Fund appropriation, which was \$214,400 for the year ended June 30, 1986. Approximately 80 percent of their expenditures were for staff payroll and board member per diem. During the year ended June 30, 1986, the board collected approximately \$17,000 in fees which were deposited in the General Fund as nondedicated receipts.

MINNESOTA MUNICIPAL BOARD

II. CURRENT FINDINGS AND RECOMMENDATIONS

The Executive Director has been inappropriately reimbursed for monthly parking fees.

The Municipal Board leases three employee parking spots from a private company for a total cost of \$83.05 per month. Minn. Stat. Section 16B.58, Subd. 8, referring to the Commissioner of Administration, provides:

"Notwithstanding any other law to the contrary, the commissioner shall charge state employees for parking facilities which are used by them and furnished for their use pursuant to any lease entered into between the state of Minnesota and the lessor of any privately owned property situated in the seven county metropolitan area."

The provision to charge state employees for leased parking facilities has been effective since July 1, 1974. The Department of Administration has established uniform rates to charge state employees parking in capitol complex lots under the control of the department. These rates are also used when employees are provided parking facilities elsewhere in the metropolitan area.

Pursuant to Department of Administration guidelines, each Municipal Board employee with a parking spot has \$5.05 deducted from their biweekly payroll warrant as a charge for parking. However, the Executive Director submits a monthly expense report claiming reimbursement for this parking expense. The reimbursement was first approved by the board for the former Executive Director on November 26, 1975. A reimbursement of \$10 per month for the current Executive Director was approved by the board on January 12, 1979. The current Executive Director was paid a total of \$350 during our audit period.

We question the Municipal Board's authority to grant such a reimbursement to the Executive Director. As mentioned previously, the Department of Administration determines parking rates for state employees under Minn. Stat. Section 16B.58. The reimbursement conflicts with this statute because the \$10 per month reimbursement offsets the \$5.05 payroll deduction for parking, and in effect, allows the Executive Director to park for free.

In addition, the Executive Director's compensation and benefits must comply with the guidelines of the Managerial Plan developed by the Department of Employee Relations, pursuant to Minn. Stat. Section 43A.18, Subd. 3. The plan allows for reimbursement of expenses, including parking, when the manager is in travel status. However, there is no authority for reimbursement of regular monthly parking fees for employees under the plan.

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In summary, we believe both the former and current Executive Director were reimbursed for expenses which were ineligible under state regulations. The issue of potential repayment is complicated because the reimbursements have occurred over an extended period of time and were specifically authorized by the board prior to the appointment of the current Executive Director. Because of these issues and pursuant to Minn. Stat. Section 3.975, this report has been referred to the Attorney General. The Attorney General has the responsibility to ensure the recovery of state funds and in fulfilling that role may negotiate the propriety of individual claims.

RECOMMENDATION:

1. *The Municipal Board should discontinue reimbursing the Executive Director for parking. The Executive Director should repay any ineligible reimbursements, if directed by the Attorney General.*

The Municipal Board did not comply with state regulations for certain travel reimbursements and special expenses.

The Department of Employee Relations promulgates state regulations for travel reimbursements and special expenses (expenses incurred in connection with assigned official duties of a State employee which are not reimbursable through the regular expense regulations). Board member travel expenses are governed by the Commissioner's Plan which establishes reimbursement amounts for lodging, mileage, meals, and other allowable expenses. Special expenses are subject to Administrative Procedure 4.4 which identifies typical allowable expenses and requires prior approval of other items by the Commissioner of Employee Relations.

We reviewed 35 board member expense reports and noted the following instances where travel reimbursements did not comply with the Commissioner's Plan, resulting in overpayments to board member Kenneth Sette:

- Hotel expense reimbursements for two nights' lodging were made at the double room rate. Lodging reimbursements are limited to reasonable costs for the employee. Mr. Sette should only have been reimbursed for the single occupancy rate. The total overpayment was \$18.02.
- One mileage reimbursement included excess mileage. Mileage reimbursements must be for the most direct route from the employee's work station to the travel destination. Since board members are not assigned to a permanent work station, mileage is paid from their personal residence to the travel destination. Mr. Sette was reimbursed for traveling 170 miles from Brainerd to St. Paul when his personal residence is in Owatonna. He was not in Brainerd on board-related business; and, therefore, was only eligible for reimbursement for the 75 miles from Owatonna to St. Paul. The difference of 95 miles resulted in an overpayment of \$25.65.

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- Mr. Sette periodically claimed reimbursement for breakfast prior to board meetings. Breakfast reimbursements are allowable provided that the board member leaves home prior to 6:00 a.m. or is away from home overnight. There was no documentation on the expense report that he left home before 6:00 a.m. We questioned eight reimbursements based on estimated required departure time given the time and location of the meeting. Mr. Sette stated that in all instances he left home prior to 6:00 a.m. because of driving conditions or the need to review certain board business prior to the meetings. Future expense reports should identify the starting time and the reason for unusual travel times when breakfast reimbursements are claimed.

In September 1985, the Municipal Board purchased a \$35.20 gift for a retiring board member from its operating account. This is not a necessary operating cost, and therefore is subject to the special expense regulations. However, the Municipal Board did not include this type of expenditure in their Special Expense Plan and did not obtain prior approval from the Department of Employee Relations for the item. The Municipal Board needs to follow Administrative Procedure 4.4 for all future special expenses. Because this expenditure probably would have been approved under the special expense guidelines if proper procedures had been followed, we do not believe repayment of the gift is necessary.

A good internal control system has procedures to ensure that all expenditures comply with applicable regulations. Each person must understand the regulations and each expenditure must be reviewed for propriety. To improve the Municipal Board's system of internal control, the staff needs to discuss the travel and special expense regulations with the board members and perform more careful reviews of expense reports.

RECOMMENDATIONS:

2. *The Municipal Board should recover payments made to the board member for ineligible travel expenses.*
3. *The Municipal Board staff should inform all board members of the provisions of the Commissioner's Plan regarding allowable travel expenses and the proper procedures for claiming reimbursement. Staff should also institute review procedures to prevent future reimbursement of ineligible expenses.*
4. *The Municipal Board should obtain prior approval from the Department of Employee Relations for any future special expenses.*

Procedures for processing receipts should be improved.

The Municipal Board charges an administrative fee for each petition it reviews. The fees are received by the Office Supervisor who endorses the checks, enters them into a log (called the docket book), and forwards them to the clerk-typist. The clerk-typist enters the deposit in the Statewide Accounting System (SWA). The office supervisor performs the monthly reconciliation of the docket book to SWA. At the time the fees are received, a case file is opened.

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We noted three weaknesses in the Municipal Board's procedures:

- receipt reconciliations are not independently verified;
- checks are not restrictively endorsed; and
- checks are not adequately secured before they are deposited.

Incompatible duties are ones that if performed by one person would allow that person to make and conceal an irregularity or an error. At the Municipal Board, the office supervisor receives the fees, enters them in the docket book, and reconciles the docket book to SWA. No independent verification exists to insure that, for all cases opened, the proper fees are recorded in the docket book and actually deposited. The Assistant Executive Director could randomly perform or review the reconciliation to provide an independent verification.

Checks are endorsed by stamping them with the Minnesota Municipal Board name. After endorsement, they are negotiable instruments which could result in a loss to the Municipal Board in the event of theft or misappropriation. A restrictive endorsement which states "For Deposit Only" in addition to the organization name protects the Municipal Board from such a loss. A new stamp could be purchased with proper wording to restrictively endorse checks.

After checks are forwarded to the clerk-typist, they are stored on her desk until deposited, which could be several days later. The risk of theft would be reduced if these checks were stored in a more secure location, such as a locked filing cabinet.

RECOMMENDATION:

5. *The Municipal Board should improve internal control by:*

- *adequately segregating duties to provide an independent review of monthly receipt reconciliations,*
- *restrictively endorsing checks, and*
- *storing checks in a secured area until deposited.*



STATE OF MINNESOTA
MUNICIPAL BOARD

Suite 165 Metro Square

7th & Robert Streets

St. Paul, Minnesota 55101

August 12, 1986

James R. Nobles
Legislative Auditor
Veterans Service Building
St. Paul, Minnesota 55155

Dear Mr. Nobles:

This letter is in response to your draft report summarizing the results of the audit of the Minnesota Municipal Board for the three years ending June 30, 1986, which concludes that in all material respects, the Minnesota Municipal Board's system of accounting control has been sufficient, that its assets are safeguarded, that it has complied with Finance related laws and regulations, and that the board properly recorded its financial transactions in the statewide accounting system. The following is in response to recommendations to improve in a few particular areas. This agency always strives to improve and welcomes recommendations that will assist in that direction.

Recommendation #1: Reimbursement has been discontinued effective May, 1986. Since this reimbursement had been in effect since 1975, and passed the 1974-1978 audit without question, it was presumed an appropriate reimbursement.

Recommendation #2: Total reimbursement of \$43.67 is being submitted for two hotel overpayments and one mileage overpayment because of incorrect starting point.

Recommendation #3: Municipal Board staff has in the past informed board members of provisions in the Commissioners' Plan regarding allowable travel expenses and proper procedures for claiming reimbursement. The auditors were shown copies of memo to board members with attachment of travel regulations. The auditor was also personally advised by the board chair that the board had copies of travel procedures which had been discussed with them. Monthly travel expenses are reviewed and questions or concerns are discussed with board members. Procedures were again reviewed in July and August and will be immediately reviewed again upon appointment of a new board member. Board members are now noting on the expense reports the time leaving and returning home from meetings and hearings and reasons for any unusual travel times when breakfast reimbursements are claimed. Ms. Larson and Ms. Guse will have on-going responsibility for this procedure with Ms. Lundy doing random verification.

James R. Nobles
August 12, 1986
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Recommendation #4: As discussed with the auditors, there appears to be some confusion in the state system about the approval method for this particular expense. Our office spent considerable time trying to get the proper department, law, rule, or procedure tracked down at the time this expense was being incurred. There was confusion even during the audit on whether Finance or DOER should approve. We support modification in the state system, and understand from the auditors this is being worked on at their suggestion. The agency plan for special expenses will be amended to cover this particular expense before it occurs again and will be prepared by Ms. Larson.

Recommendation #5: In addition to the report's articulated procedures for processing files and receipts: 1) all initiating petitions are filed with the Secretary of State's Office, MnDOT, affected city, township, and county, 2) an acknowledgement letter is sent to the initiating party by the Assistant Director at which time the fee is verified, 3) the Clerk Typist, the Office Supervisor, and the Assistant Director follow up on the files and receipt of fees, 4) a follow up on all pending proceedings is also done every six months to check for receipt of fees and other requirements by the Clerk Typist and the Assistant Director, 5) all four staff persons receive calls from clients wanting to know the status of their petitions, and 6) board members also receive occasional inquiries. It would be near impossible for a file and fee to be disposed of undetected. Random reconciliation is also being done by the Assistant Director as recommended.

Checks are being restrictively endorsed. A stamp was ordered adding the words "For Deposit Only". Checks are being stored in a secured area until deposited by Ms. Larson and Ms. Guse.

We thank Claudia Gudvangen, Auditor Manager, and Alan Finlayson, Auditor-in-Charge, and John Asmussen, Deputy Legislative Auditor, for their courteous and professional manner throughout the audit.

Sincerely,


Terrence A. Merritt
Executive Director

TAM:sg