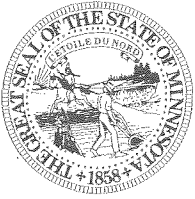


**DEPARTMENT OF HUMAN SERVICES
BRAINERD REGIONAL CENTER
FINANCIAL AND COMPLIANCE AUDIT
FOR THE THREE YEARS ENDED JUNE 30, 1985**

AUGUST 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

Leonard W. Levine, Commissioner
Department of Human Services

Armond D'Arcangelo, Chief Executive Officer
Brainerd Regional Human Services Center

Audit Scope

We have completed a financial and compliance audit of the Brainerd Regional Human Services Center for the three years ended June 30, 1985. Section I provides a brief description of the Brainerd Regional Human Services Center'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 May 9, 1986.

The objectives of the audit were to:

- study and evaluate major Brainerd Regional Human Services Center (BRHSC) internal control systems, including a review of receipts, payroll, fixed assets, and administrative disbursements;
- verify that financial transactions were properly recorded in the statewide accounting system;
- verify that financial transactions were made in accordance with applicable laws, regulations, and policies, including Minn. Stat. Chapters 246 and 252, and other finance-related laws and regulations; and
- determine the status of prior audit recommendations.

Management Responsibilities

The management of BRHSC is responsible for establishing and maintaining a system of internal accounting control. 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. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures.

Senator Randolph W. Peterson, Chairman
Members of the Legislative Audit Commission
Leonard W. Levine, Commissioner
Armond D'Arcangelo, Chief Executive Officer
Page 2

Due to 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 BRHSC 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 BRHSC. The purpose of our testing of transactions was to obtain reasonable assurance that BRHSC had, in all material respects, administered their program in compliance with applicable laws and regulations.

Conclusions

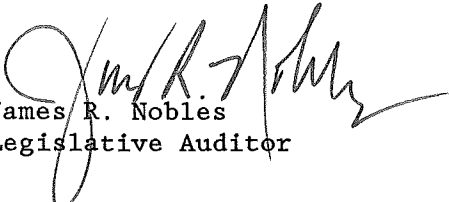
In our opinion, except for the issues raised in Recommendations 3-6, the BRHSC system of internal accounting control in effect on March 31, 1986, taken as a whole, was sufficient to provide management with reasonable, but not absolute assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly.


In our opinion, except for the issue raised in Recommendation 3, for the three years ended June 30, 1985, BRHSC financial transactions were properly recorded in the statewide accounting system.

In our opinion, except for the issues raised in Recommendations 1-2, for the three years ended June 30, 1985, BRHSC administered its programs in compliance, in all material respects, with applicable finance-related laws and regulations.

Section II of this Audit Report contains the recommendations we developed during this audit. It is presented to assist you in improving accounting procedures and controls. We will be monitoring and reviewing your progress on implementing these recommendations. Section III of this report includes a summary of the progress on all recommendations developed during our fiscal year 1982 audit, dated July 21, 1983. The fourteen prior audit recommendations were implemented or substantially implemented.

We would like to thank the Brainerd Regional Human Services Center staff for the cooperation extended to us during this audit.


James R. Nobles
Legislative Auditor


John Asmussen, CPA
Deputy Legislative Auditor

August 22, 1986

BRAINERD REGIONAL HUMAN SERVICES CENTER

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AUDIT PARTICIPATION

The following members of the Office of the Legislative Auditor prepared this report:

John Asmussen, CPA	Deputy Legislative Auditor
Renee Redmer	Audit Manager
John Hirschfeld, CPA	Auditor-in-Charge
Alan Finlayson, CPA	Staff Auditor
Michael E. Anderson, CPA	Staff Auditor

EXIT CONFERENCE

The findings and recommendations in this report were discussed with the following staff of the Brainerd Regional Human Services Center on May 9, 1986:

Armond D'Arcangelo	Chief Executive Officer
Elmer Davis	Assistant Institution Administrator
Norris Kowalke	Accounting Supervisor
Lyn Ogren	Personnel Supervisor

BRAINERD REGIONAL HUMAN SERVICES CENTER

INTRODUCTION

The Brainerd Regional Human Services Center (BRHSC) is a multipurpose institution which serves individuals with problems caused by mental illness (MI), chemical dependency (CD), or mental retardation (MR). BRHSC serves a 12 county area in northcentral Minnesota; and the Minnesota Learning Center, a part of BRHSC, serves the educable retarded with behavior problems from the entire state. The center is under the general management of the Commissioner of Human Services and the immediate supervision of a Chief Executive Officer (CEO) who is appointed by the Commissioner. Harold S. Gillespie held the position from January 1, 1974 until January 8, 1986. Elmer Davis served as acting CEO until Armond D'Arcangelo was appointed as CEO on March 3, 1986. BRHSC has a staff of 625 to administer the general operations and various programs at the center. The table below shows the average resident population for fiscal years 1983 - 1985:

<u>Fiscal Year</u>	<u>Average Resident Population</u>			
	<u>MI</u>	<u>MR</u>	<u>CD</u>	<u>Total</u>
1983	78	352	49	479
1984	65	324	60	449
1985	57	298	69	424

BRHSC is financed mainly by General Fund appropriations made directly to the Department of Human Services (DHS). DHS is responsible for maintaining, controlling, and transferring the necessary funds to the appropriate center accounts. The table below summarizes BRHSC's expenditures for fiscal years 1983-1985, as recorded in the statewide accounting system:

	<u>FY 1983</u>	<u>FY 1984</u>	<u>FY 1985</u>
Personnel	\$15,413,944	\$17,138,442	\$17,813,076
Current Expense	1,615,759	1,722,657	1,737,276
Repairs and Replacements	75,771	139,765	110,410
Special Equipment	<u>70,959</u>	<u>37,943</u>	<u>43,151</u>
Subtotal	\$17,176,433	\$19,038,807	\$19,703,913
Less: Systemwide Regional Laundry Costs	<u>554,105</u>	<u>591,941</u>	<u>640,362</u>
TOTAL EXPENDITURES	<u>\$16,622,328</u>	<u>\$18,446,866</u>	<u>\$19,063,551</u>
AVERAGE POPULATION	479	449	424
COST PER AVERAGE POPULATION	\$34,702	\$41,084	\$44,961

The average cost per capita at BRHSC has increased from \$34,702 in 1983 to \$44,961 in 1985, approximately a 77 percent increase. This change is mainly due to an increase in salary costs and a decrease in resident population.

BRHSC safeguards approximately \$130,000 of resident money as prescribed by Minnesota statutes. These funds consist of wages, donations, and personal needs allowances.

BRAINERD REGIONAL HUMAN SERVICES CENTER

II. CURRENT FINDINGS AND RECOMMENDATIONS

Brainerd Regional Human Services Center (BRHSC) is granting resources to a nonstate entity without proper legislative authorization.

BRHSC is providing labor, building space, and mortgage payments to Camp Confidence. This financing arrangement has existed for at least 17 years without legislative authorization. The camp, a nonprofit organization, offers a variety of year-round camping and outdoor facilities to the mentally retarded. Annually, more than 2,700 developmentally disabled individuals from over 171 agencies, including the state human service regional centers, are served by the camp. No fees are charged for individuals to attend the camp.

State appropriations are authorized by the Legislature for the operations of the human service regional centers. The 1983-1985 biennial budget request presented to the Legislature included mainly funding requests to administer the general operations of BRHSC. The budget did not include any funding requests for Camp Confidence activities and the Legislature did not appropriate funds to provide resources to the camp. The budget did not disclose the current financing arrangements whereby BRHSC is providing personnel, rental space, and mortgage subsidies to the camp. Therefore, specific legislative authority for BRHSC to grant resources to Camp Confidence has not been established.

BRHSC authorized two state funded employees, the camp director and the assistant director, to work at Camp Confidence. The director was assigned to work at the camp from April 1969 to December 1985. The director resigned from state service in 1985 to become an employee of the camp and is currently funded by the nonprofit organization. His last year's state subsidized salary totaled approximately \$38,000. The assistant director was employed by BRHSC in April 1969 and has worked for the camp since that date. The state pays approximately \$23,000 for the assistant director's annual salary. Legislative authority to provide personnel resources to the camp has not been obtained by BRHSC.

We also question the legality of a state employee working exclusively for a nonstate entity. First, the employees working at the camp may not be appropriately classified as state employees and may not be eligible for state benefits such as insurance, retirement, sick and annual leave. Second, potential liabilities are created for the state by BRHSC assigning these staff to the camp. Third, the line of supervisory authority cannot be appropriately provided by BRHSC for employees working for another facility. The employees are exclusively accountable to the nonstate entity. Due to the lack of legislative authority and the legal questions regarding the provision of state personnel services to Camp Confidence, this financing arrangement should be discontinued.

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BRHSC currently permits Camp Confidence to maintain an office at their facility. BRHSC has not established a lease agreement and does not receive any monetary compensation from the camp for use of this space. The Department of Administration is responsible to manage state property and to authorize rental of state facilities in accordance with Minn. Stat. Section 16B.24. BRHSC should consult the Real Estate Management Division of the Department of Administration to obtain the proper authorization and to negotiate an appropriate rental charge for the space provided to the camp.

The Volunteer Council Canteen Committee, local volunteers, and state employees operate the BRHSC canteen for the benefit of the residents. Approximately \$55,000 in canteen sales were deposited in a private bank account for the year ended December 31, 1984. BRHSC staff deposit the receipts, maintain certain records, and reconcile the bank account. The canteen committee approves the disbursements and prepares the checks. The Canteen Committee authorized approximately \$1,600 in 1984 to liquidate the camp's mortgage. We do not believe that the camp's mortgage payments can be subsidized from the BRHSC canteen profits.

Minn. Stat. Section 16A.72 (5) provides that, "... receipts from the operation of the patients' and inmates' stores and vending machines, . . . shall be deposited in the social welfare fund in each institution for the benefit of the patients and inmates." Minn. Stat. Section 246.15, Subd. 1 provides that the social welfare fund disbursements be made through the State Treasury. Therefore, the canteen profits should be deposited in the social welfare account in the State Treasury. The profits should be used for the benefit of all BRHSC residents.

In conclusion, we do not believe there is legal authority for the current financing arrangements between BRHSC and Camp Confidence. BRHSC should obtain legislative authority to grant funds to the camp to assist in financing their operations, rather than using state funds appropriated for administration of the center.

RECOMMENDATIONS:

1. *BRHSC should discontinue the financial support to Camp Confidence unless they receive legislative approval.*
2. *Specifically, BRHSC should:*
 - *consult with the Department of Human Services, the Attorney General, and union representatives to resolve the legal issues associated with the state employees working at the camp;*
 - *work with Real Estate Management to establish an agreement for rental space in the state owned facility; and*

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- *use the canteen funds for the benefit of all BRHSC residents instead of subsidizing the mortgage at Camp Confidence.*

If legislative approval is obtained to support Camp Confidence, BRHSC should provide direct funding rather than personnel services, space, and other indirect support services.

3. *BRHSC should administer the canteen operations through the social welfare account in the State Treasury.*

BRHSC has not completed the transfer of funds from the federal account to the General Fund for expenditures incurred under the Federal Work Incentive Program - CFDA #13.646.

BRHSC entered into a contract with the Department of Economic Security (Department of Jobs and Training) in 1983 to participate in the Work Incentive Program. This contract provided for the employment of one individual at BRHSC for the period March 1983 to January 1984. Salary costs incurred under this contract were charged to the General Fund at BRHSC and were to be reimbursed by the Federal Work Incentive Program. BRHSC was reimbursed a total of \$7,561 during fiscal years 1984 and 1985 which was deposited into a federal account. However, only \$5,591 has been transferred to the General Fund as of April 30, 1986, with the difference of \$1,970 remaining in the federal account. As a result, the General Fund was not appropriately reimbursed for the salary costs.

RECOMMENDATION:

4. *BRHSC should transfer \$1,970 to the General Fund as a final reimbursement of costs incurred under the Work Incentive Program.*

BRHSC has understated the value of some equipment added to their fixed asset inventory.

Equipment purchased at BRHSC during fiscal year 1985 totaled approximately \$90,000. The Department of Finance's Operating Policy No. 06:04:07, March 1986, requires that any equipment with a unit cost of \$300 or more and a life expectancy of one year or more be added to the state's fixed asset inventory listing. Costs associated with the acquisition and preparation of equipment are also to be added to the cost of the inventory. Our review of equipment purchases found that the reported cost for several items added to the fixed asset inventory were inaccurate.

Some equipment purchases were not included in the inventory listing, understating the value of the fixed assets. After receiving an item that is to be included in the fixed asset inventory, BRHSC completes an inventory addition form. When transferring the cost of the items from the purchase order to the inventory addition form, supplemental equipment components, such as cables and memory expansion boards, and shipping and installation costs, were not included as part of the cost of the inventoried item. For instance, when purchasing a computer system, an auxiliary component with a

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cost of \$2,450 was not included on the fixed asset inventory listing. In order to comply with the Department of Finance's operating policy, all costs associated with the acquisition and preparation of equipment for use totaling \$300 or more should be included in determining the cost of the equipment and should be shown on the inventory listing.

RECOMMENDATION:

5. *BRHSC should include the total cost of equipment on the fixed asset inventory listing.*

Expenditures for repairs of residents' personal items needs to be documented.

BRHSC Policy #7105 requires division directors to establish a system for approving and documenting purchases from the funds of residents incapable of managing their own funds. To meet this requirement, the division directors have developed a procedure whereby a resident's direct care worker lists the type of purchase on a resident shopping form and signs it to certify that the purchase is for the benefit of the resident. The form is then reviewed by the business office to verify that the resident has sufficient funds to purchase the item.

No form is used by BRHSC to authorize expenditures for repairs to resident's personal items. The current procedure is to deliver items in need of repair to the business office. The business office sends the items to a vendor for repair. This procedure does not result in any approval or documentation for the expenditure and consequently, does not comply with Policy #7105. The use of the resident shopping form, or similar form, would provide a method for approving and documenting these expenditures. An authorization form would also be helpful in preventing inappropriate work charged to a resident's account and would allow a guardian to review all charges to the resident's account.

RECOMMENDATION:

6. *The division directors should comply with BRHSC Policy #7105 and provide an authorization form to document repair expenditure charges to resident accounts.*

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III. STATUS OF PRIOR AUDIT RECOMMENDATIONS
AND

PROGRESS TOWARD IMPLEMENTATION

Controls over the Work Activity Center sales and assets are inadequate.

1. The business office should monitor the Work Activity Center to ensure compliance with the recently established cash receipt procedures.

Recommendation Implemented. The monitoring of the Work Activity Center by the business office since 1983 has resulted in the development of prenumbered sales receipts and the depositing of cash receipts timely. We tested the Work Activity Center's current procedures as of April 30, 1986, and determined that they comply with the cash receipt procedures developed by the business office.

2. The Work Activity Center should establish an inventory recordkeeping system for supplies and finished goods in compliance with the Consumable Inventory Management Program Manual.

RECOMMENDATION SUBSTANTIALLY IMPLEMENTED. In fiscal year 1983, the Work Activity Center developed a finished goods inventory system that provides secure storage of the items in addition to a perpetual inventory system. The supplies inventory consists mainly of a small amount of scrap material and has minimum value only to the Work Activity Center. A perpetual inventory system for the supplies inventory is not economically feasible.

Agreements involving the Work Activity Center and non-state entities have not been formalized.

3. The Work Activity Center should execute formal contracts in compliance with Contract Management policies and procedures governing income contracts with non-state entities.

Recommendation Implemented. In fiscal year 1984, the Work Activity Center established formal contracts with non-state entities.

BRHSC is not collecting sales tax on stuffed animals made by the residents working in the Work Activity Center and sold to hospital employees.

4. BRHSC should collect sales tax on the finished goods and deposit it in accordance with the Department of Finance's Operating Policy and Procedure No. 06:06:12. The monthly sales tax reports should also be prepared and sent to the Department of Finance's general accounting section.

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Recommendation Implemented. The Work Activity Center started collecting sales tax on the sale of finished goods in fiscal year 1984. The state agency sales tax report is being filed as required by the Department of Finance operating policy.

The residents participating in the Work Activity Center Program are not compensated for the work performed in accordance with Minn. Stat. Section 246.151.

5. BRHSC should determine whether the provisions of Minn. Stat. Section 246.151, Subd. 1 apply to residents working in the Work Activity Center, and should revise the compensation procedures to comply with the section, if deemed applicable.

Recommendation Implemented. The U.S. Department of Labor has issued a Sheltered Workshop Certificate exempting the Work Activity Center from complying with the federal minimum wage requirements. The Department of Human Services introduced a bill during the 1986 legislative session to clarify the applicability of Minn. Stat. Section 246.151, Subd. 1. This statute requires the regional centers to pay residents in sheltered workshops the minimum wage. The statute does not acknowledge the certificates of exemption authorized by the U.S. Department of Labor. However, we believe the center is in substantial compliance with the state and federal minimum wage laws.

Internal controls over BRHSC consumable inventories need to be strengthened.

6. A perpetual inventory system with economic order points and economic order quantities should be established for all pharmacy inventory items.

Recommendation Implemented. In fiscal year 1985, BRHSC initiated the "Prime Vendor Inventory System" which includes the features of economic order points and economic order quantities.

7. Periodic physical inventories should be conducted in all consumable inventory areas by someone independent of the custodial functions.

Recommendation Implemented. In 1984, an individual from the business office completed a physical inventory and compared the results to the perpetual inventory records. However, in 1985 when the "Prime Vendor Inventory System" was installed, the manual perpetual records were discontinued. The new system, while providing for electronic reordering based on the inventory count, does not provide for automatic perpetual inventory records. BRHSC also completed a physical inventory in 1985; however, the physical counts could not be compared to a perpetual system since it had been discontinued. Recent discussions with Inventory Management Division staff in the Department of Administration indicated that BRHSC should establish perpetual records from the last physical count and the amounts ordered and dispensed since

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the last physical count. Perpetual balances should be determined at least annually and compared to physical counts and any differences investigated.

Child nutrition reimbursement claims are not accurately completed, and reimbursement amounts subsequently received are not verified.

8. The actual number of meals served to eligible individuals should be reported on the monthly payment voucher when requesting reimbursement from the Child Nutrition Program.

Recommendation Implemented. In fiscal year 1984, BRHSC started using a daily census report which included adjustments for any transfers, admissions, or discharges, as a basis for reporting the number of meals for reimbursement.

9. BRHSC staff should verify that the correct reimbursement amount was calculated by the Department of Education and transferred to a BRHSC account.

Recommendation Implemented. In fiscal year 1984, BRHSC started verifying the accuracy of the reimbursement amount by comparing the amounts on the monthly payment voucher to a child nutrition payment report received from the Department of Education.

10. Written procedures should be established to assist BRHSC staff in performing their responsibilities associated with claims for reimbursement from the Child Nutrition Program.

Recommendation Implemented. The Department of Education has provided BRHSC with adequate written guidelines and forms for claiming reimbursement. In addition, the Department of Human Services and the Department of Education met in 1985 to discuss the guidelines and clarify any misunderstandings with BRHSC. Additional written procedures established by BRHSC will not be necessary.

Business office procedures regarding controls over mail receipts and disbursements from the contingent accounts could be improved.

11. Incoming checks received through the mail should be restrictively endorsed "for deposit only" promptly when the mail is opened.

Recommendation Implemented. BRHSC initiated the procedure in September 1983 for restrictively endorsing incoming checks as soon as they are received.

12. Someone independent of disbursements made from the contingent accounts should reconcile those accounts and review transactions for accuracy and propriety.

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Recommendation Implemented. In fiscal year 1985, BRHSC implemented a procedure to have the contingent accounts reviewed and reconciled by someone independent of the responsibility for either preparing the checks or maintaining the disbursement records.

The procedure for distributing social welfare cash to living directors for minor purchases made by residents should be redesigned.

13. Each living unit director or designee should verify the amount of cash received from the business office, physically separate each resident's funds, and maintain receipt and disbursement accounting records by individual resident.

Recommendation Implemented. BRHSC Policy #7105, dated November 4, 1985, requires the Developmental Disabilities Program Division director to ensure that adequate controls exist over resident funds in the living units, including limited access and accurate accounting records. We tested the controls over the residents' funds and found them to be adequate.

14. An independent review of all canteen cash activity and a reconciliation of resident cash on hand to the supporting accounting records should be performed periodically.

Recommendation Implemented. BRHSC Policy #7105, dated November 4, 1985, requires that the director of Support Services shall at least annually conduct an audit in each building to assess adequacy of procedures. An audit of the cash balances and a review of procedures was recently completed on November 26, 1985 by the Support Services director.

**BRAINERD REGIONAL
HUMAN SERVICES CENTER**

East Oak Street
Brainerd, Minnesota
56401

Armond J. D'Arcangelo
Chief Executive Officer

**Providing Residential and
Consultation Services In:**
DEVELOPMENTAL DISABILITIES,
CHEMICAL DEPENDENCY,
PSYCHIATRIC CARE, AND
LEARNING/BEHAVIOR IMPAIRMENT



MINNESOTA DEPARTMENT OF HUMAN SERVICES

August 22, 1986

Mr. James R. Nobles, Legislative Auditor
Office of the Legislative Auditor
Veterans Service Building
St. Paul, MN 55155

Dear Mr. Nobles:

The purpose of this letter is to clarify and to modify our responses to the recommendations and supporting information contained in the draft audit report for the three years ended June 30, 1985.

Recommendation #1

This recommendation deals with financial support to Camp Confidence. The specific items of support that we have been providing are dealt with in Recommendation #2.

Recommendation #2

The employee who has been assigned to work at Camp Confidence will be transferred to the Brainerd Regional Human Services Center maintenance staff and will no longer be assigned to Camp Confidence, effective September 1, 1986. However, when residents are at the Camp, staff will have to accompany them.

A rental agreement will be established with the Camp Corporation for use of space at this facility. The lease will be completed by October 1, 1986. We believe that this should be a mutual benefit lease.

As indicated in our response to Recommendation #3, beginning October 1, 1986 canteen receipts will be deposited through the Social Welfare account in the State Treasury. As of that date canteen funds will no longer be applied to mortgage payments for Camp Confidence.

Elmer Davis, Assistant Institution Administrator, will be the responsible person for completion of actions indicated under Recommendation #2.

Mr. James Nobles
August 22, 1986
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Recommendation #3

Effective October 1, 1986 canteen receipts and disbursements will be through the Social Welfare Account in the State Treasury. The person responsible for initiating this will be Elmer Davis, Assistant Institution Administrator.

Recommendation #4

This will be done by September 1, 1986. The responsible person will be Norris Kowalke, Accounting Supervisor.

Recommendation #5

This will be done effective at once. The responsible person will be Norris Kowalke, Accounting Supervisor.

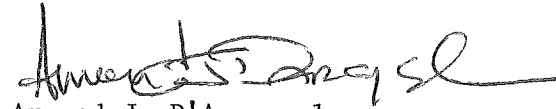
Recommendation #6

This will be done by October 1, 1986. The responsible person will be Norris Kowalke, Accounting Supervisor.

To summarize, all recommendations will be complied with by October 1, 1986. Please inform me if you need any further information.

Sincerely,

BRAINERD REGIONAL HUMAN SERVICES CENTER



Armond J. D'Arcangelo
Chief Executive Officer

AJD:cw

cc: Commissioner Levine
Ken Gossett
Jim Walker