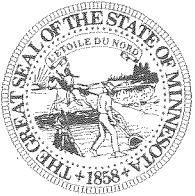


**MINNESOTA STATE COUNCIL FOR THE HANDICAPPED
FINANCIAL AND COMPLIANCE AUDIT
FOR THE THREE YEARS ENDED JUNE 30, 1986**

MAY 1987

**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

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Legislative Audit Commission

Members of the Legislative Audit Commission

Ms. Mary O'Hara, Chairman
Minnesota State Council for the Handicapped

Members of the Minnesota State Council for the Handicapped

Mr. John Clawson, Executive Director
Minnesota State Council for the Handicapped

Audit Scope

We have completed a financial and compliance audit of the Minnesota State Council for the Handicapped for the three years ended June 30, 1986. Section I of this letter provides a brief description of the activities and finances of the Council for the Handicapped. Our audit was conducted 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 April 9, 1987.

The objectives of the audit were to:

- study and evaluate major systems of internal accounting control at the Council for the Handicapped, including a review of receipts, payroll, travel and subsistence payments, and other administrative disbursements;
- verify that financial transactions were properly recorded in the Statewide Accounting System;
- verify that financial transactions were made in accordance with Minn. Stat. Chapter 256, Sections 256.481 to 256.482, and other finance-related laws, regulations, and policies; and
- follow up on prior audit recommendations.

Management Responsibilities

The management of the Council for the Handicapped is responsible for establishing and maintaining a system of internal accounting control. The objectives of such 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

Representative Phillip J. Riveness, Chairman
Members of the Legislative Audit Commission
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Mr. John Clawson, Executive Director
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accordance with management's authorization and recorded properly. In fulfilling this responsibility, estimates and judgements by management are required to assess the expected benefits and related costs of control procedures.

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 the Council for the Handicapped 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 operations of the Council for the Handicapped. The purpose of our testing of transactions was to obtain reasonable assurance that the Council for the Handicapped had, in all material respects, administered its operations in compliance with applicable laws and regulations.

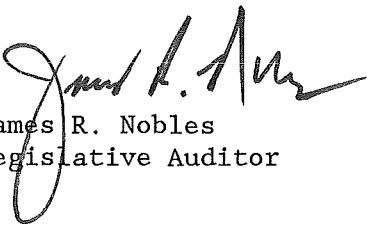
Conclusions

In our opinion, except for recommendation number 2 discussed in Section II of this report, the system of internal accounting control in place at the Council for the Handicapped on April 9, 1987, 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.

In our opinion, for the three years ended June 30, 1986, the financial transactions of the Council for the Handicapped were properly recorded in the Statewide Accounting System.

In our opinion, except for recommendation number 1 discussed in Section II of this report, for the three years ended June 30, 1986, the Council for the Handicapped administered its operations in compliance, in all material respects, with applicable finance-related laws and regulations.

We would like to thank the staff of the Council for the Handicapped for the cooperation extended to us during this audit.


James R. Nobles
Legislative Auditor


John Asmussen, CPA
Deputy Legislative Auditor

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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
Renee Redmer	Audit Manager
Michael E. Anderson, CPA	Auditor-in-Charge
Marla J. Conroy	Staff Auditor

EXIT CONFERENCE

The findings and recommendations in this report were discussed with the following personnel from the Council for the Handicapped at an exit conference which was held on April 13, 1987:

John Clawson, Executive Director
Maude Wortham, Accounting Technician

MINNESOTA STATE COUNCIL FOR THE HANDICAPPED

I. INTRODUCTION

The Minnesota State Council for the Handicapped (Council) operates under Minn. Stat. Chapter 256, Sections 256.481 to 256.482, and is a service agency responsible for expanding opportunities for and promoting the rights and independence of handicapped children and adults to participate fully in society.

The primary clients of the Council are the approximately 15 percent of Minnesota citizens who experience substantial handicaps, including vision and hearing impairments, mental illness, epilepsy, learning disabilities, spinal cord injuries, mental retardation, respiratory disease, heart conditions, and other physical disabilities.

The Council consists of 21 members, who are appointed by the Governor. The majority of the Council members are handicapped persons or parents or guardians of handicapped persons, as required by Minn. Stat. Section 256.482. The Council establishes policies, determines goals and priorities, and oversees activities, while the Council staff provides administrative support to the Council and information and referral assistance to clients statewide.

The Council is mainly funded by state appropriations from the General Fund. Private donations of about \$42,000 and a federal grant of \$1,000 were also received in 1986 and used to supplement the Council's operations. Expenditures for the year ended June 30, 1986 totaled approximately \$430,000. Payroll comprised approximately 70 percent of the total expenditures for the year ended June 30, 1986, and 30 percent of the total expenditures were for expense and contractual services, supplies, and fixed assets. The federal grant of \$1,000 was received from the Division of Rehabilitation Services, Minnesota Department of Human Services, for scholarship awards for the Minnesota competition of the 1986 National Journalism Contest, which was sponsored by the President's Committee on Employment of the Handicapped.

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II. CURRENT FINDINGS AND RECOMMENDATIONS

Mileage reimbursements have been inappropriately claimed by certain members and staff of the Council for the Handicapped.

The Minnesota Department of Employee Relations' Commissioner's Plan, authorized by Minn. Stat. Section 43A.18, Subd. 2, establishes certain terms and conditions for reimbursement of mileage expenses incurred by council members. Staff are to be reimbursed for mileage expenses in accordance with their respective plans. Certain council members and staff have been reimbursed for mileage expenses which, in our opinion, are ineligible under the statutes and Commissioner's Plan. Most individuals were claiming reimbursement based on odometer readings which exceeded the most direct routes according to the Department of Transportation records.

The Commissioner's Plan, Chapter 14, specifies that a council member shall be reimbursed for mileage expenses at one of three following rates (\$.21, .27, or .40), depending upon certain circumstances. The same mileage rates apply to staff as shown in their respective plans.

The Commissioner's plan states that, ". . . in all cases, mileage must be on the most direct route according to Department of Transportation records." Thus, both trip miles (i.e., miles between cities) and local miles (i.e., miles within the vicinity of the home station or destination) are allowable for reimbursement, but only for those miles along the most direct route. The mileage for the most direct routes for trip miles is provided through the Department of Transportation; the mileage for local miles must be documented by the individual seeking reimbursement, and considered reasonable and valid by the reimbursing agency.

We reviewed all expense reports submitted by council members and staff for fiscal year 1986. We believe several trips included mileage claims which exceed the most direct route shown in the Department of Transportation records. The total mileage claimed which is questioned related to the reimbursement requests of sixteen Council members and staff, and amounted to 20,367 miles; the direct route mileage for these claims was calculated at 18,047 miles. The difference of 2,320 miles results in an potential overpayment of \$986.76. In addition, we are questioning 1,096 local miles incurred in the Twin Cities vicinity which were claimed during fiscal year 1986.

We discussed the mileage shown on the expense reports with the Executive Director of the Council and asked for further documentation to substantiate the miles in question. The Executive Director has contacted each of the council members and staff whose claims have been questioned, requesting further explanations and documentation for these amounts. A number of the responses from the council members admitted that indirect routes had been taken or that personal business had been conducted on certain trips, and that this mileage had been included in the reimbursement requests. Therefore, we believe that the amounts reimbursed to the council members for these indirect and personal miles should be

MINNESOTA STATE COUNCIL FOR THE HANDICAPPED

repaid, since the plans only allow reimbursement for the most direct routes taken while on state business.

In a memorandum to all council members and staff dated April 3, 1987, the Executive Director clarified the procedures to be followed in requesting and documenting mileage reimbursements. The Executive Director has indicated that the necessary actions to resolve these items will be taken. The Council has already arranged to be reimbursed for \$41.85 from one council member for mileage which has been determined to be personal mileage.

RECOMMENDATION:

1. The Council should determine the propriety of these claims and pursue repayment of reimbursements made to members and staff for ineligible expenses.

Employee responsibilities for purchasing supplies, materials and fixed assets are not adequately separated.

Disbursements made by the Council during fiscal year 1986 totaled approximately \$430,000; approximately 30 percent of these expenditures were made for items such as expense and contractual services, supplies and materials, and fixed assets. The system of internal accounting controls over the purchasing of supplies, materials and fixed assets needs improvement in the area of separation of duties.

Currently, the accounting technician is responsible for or authorized to prepare purchase orders and sign purchase orders as authorization for the purchases. Such duties are incompatible because when both the preparation and authorization of the purchase orders is with one individual, there is a possibility that incorrect or unauthorized purchases may occur without being detected. While the council staff is small, an adequate separation of duties for financial functions is still possible, and critical to the strength of the system of internal accounting controls. The Executive Director or another employee could authorize the purchase orders prepared by the accounting technician.

Adequate separation of the purchasing duties between individuals provides a degree of assurance as to the accuracy and reliability of the purchasing system. Separation of these duties is also necessary to prevent intentional and unintentional errors, and to provide a double-check of the work done. Without an adequate separation of duties, the system of internal controls would be compromised in its efforts to prevent material errors or irregularities from occurring, or detecting such errors or irregularities if they have occurred.

RECOMMENDATION:

2. The Executive Director or another employee should authorize the purchase orders prepared by the accounting technician.

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III. STATUS OF PRIOR AUDIT RECOMMENDATIONS
AND
PROGRESS TOWARD IMPLEMENTATION

Payroll procedures and controls to ensure accurate reporting and documentation of employee's hours worked need to be improved.

1. We recommend that the Council:

- develop a time sheet (showing hours spent on each program) to be completed by the employee and approved by a supervisor;
- implement the use of written leave requests which show approval of leave;
- periodically audit the employee attendance records to assure their accuracy;
- discontinue allowing employees to use leave not earned; and
- retain all payroll and leave records.

RECOMMENDATION IMPLEMENTED. The Council now follows the central payroll procedures in use throughout the state system.

2. The Council should work with the Department of Administration in setting reimbursement agreements with state employees who are assigned parking spaces in any leased facilities.
3. The Council should determine the need for parking spaces on a daily usage basis and discontinue paying employee parking on a daily basis.

RECOMMENDATIONS IMPLEMENTED. The Council no longer leases parking spaces for employees, nor does the Council pay any portion of daily parking fees for employees.

4. Records to support all grant expenditures should be available for audit.

RECOMMENDATION IMPLEMENTED. The Council maintains adequate supporting documentation for all grant expenditures.



MINNESOTA STATE COUNCIL FOR THE HANDICAPPED



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May 26, 1987

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

Dear Mr. Nobles:

The purpose of this letter is to acknowledge your recent audit of our agency, and respond to its two findings and the recommendations for corrective action.

- 1) As to the finding that mileage reimbursements have been inappropriately claimed by certain members and staff of the Council, we concede that the practice of the Council has been to reimburse for odometer mileage, rather than for the direct miles as established by the Commissioner of Transportation.

I have already sent a memo to Council members and staff reminding them of the need to limit mileage reimbursement requests to direct miles only, and have provided each member with the official Minnesota Department of Transportation mileage from their home to St. Paul. That will serve as the basis for future reimbursement claims. Members and staff, alike, will be required to provide detailed documentation on claims which go beyond the limits of the Commissioner's, or other applicable, Plan.

My office is preparing, and will present to the Council at its July meeting, a version of our current reimbursement policies, which will spell out clearly and plainly the limits of mileage and expense reimbursements. I will forward to you a copy of that policy when it has been adopted.

As Director of the agency I am taking responsibility for contacting each person whose reimbursement was questioned by your office, and, barring further, compelling, documentation of why the larger reimbursement should stand, I am asking for repayment to the Council of the amounts indicated by the audit staff. That contact will have been completed by May 29, 1987.

After meeting with your staff to review the audit procedure, and upon examination of the documentation and explanations made by members and staff in justifying their higher reimbursement requests, we understand that the \$986.76 figure shown on page 2 of the report has been offset by \$805.05, leaving a balance of \$181.71 to be reimbursed to the state.

- 2) As to the finding that employee responsibilities for purchasing supplies, materials and fixed assets are not adequately separated, we agree with the finding and have already taken steps to enact that separation.

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Specifically, the Executive Director now signs off on all purchase orders, and a staff member other than the account technician will check in supplies and materials as they are received.

We appreciated the thoroughness, courtesy and professionalism of your staff. They worked in crowded and cramped quarters and did so with good humor and grace.

One of the goals of the Council, as expressed in its mission statement, is to operate its administrative and fiscal affairs in compliance with all relevant laws and rules. Your audit will help us to better fulfill our mission to Minnesota's citizens with disabilities.

Sincerely,


John T. Clawson
Executive Director

JTC/ar