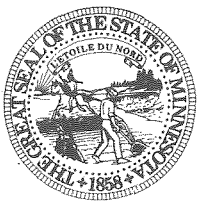


**COUNCIL ON BLACK MINNESOTANS
FINANCIAL AND COMPLIANCE AUDIT
FOR THE PERIOD JULY 1, 1984 TO DECEMBER 31, 1987**

JULY 1988

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

88-38



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

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

JAMES R. NOBLES, LEGISLATIVE AUDITOR

Representative Phillip J. Riveness, Chairman
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. Alvin McFarlane, Jr., Chairman
Council on Black Minnesotans

Members of the Council on Black Minnesotans

Mr. Victor Propes, Executive Director
Council on Black Minnesotans

Audit Scope

We have completed a financial and compliance audit of the Council on Black Minnesotans for the period from July 1, 1984 to December 31, 1987. Section I provides a brief description of the Council'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 March 18, 1988.

The objectives of the audit were to:

- verify that financial transactions were properly recorded in the statewide accounting system; and
- verify that financial transactions were made in accordance with Minn. Stat. Section 3.9225, and other finance-related laws, regulations, and policies.

Management Responsibilities

The Department of Administration provides administrative support for the Council on Black Minnesotans by entering the biweekly payroll onto the state's payroll system, depositing Council receipts, and processing invoices for payment after initial authorization by Council staff. The management of the Council is, however, ultimately responsible for its financial operations.

The management of the Council on Black Minnesotans is also responsible for the Council's compliance with laws and regulations. In connection with our audit, we selected and tested transactions and records from the

Representative Phillip J. Riveness, Chairman
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Mr. Alvin McFarlane, Jr., Chairman
Members of the Council on Black Minnesotans
Mr. Victor Propes, Executive Director
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programs administered by the Council. The purpose of our testing transactions was to obtain reasonable assurance that the Council had, in all material respects, administered their programs in compliance with applicable laws and regulations.

Scope Limitation

We were unable to audit fiscal year 1985 receipt and disbursement transactions of the Council on Black Minnesotans because financial records could not be located. Both receipt and disbursement records for the Council, stored within the Department of Administration, have been misplaced and are presumed to have been destroyed. These records are necessary to verify that financial transactions were recorded properly and were made in accordance with applicable laws and regulations.

Conclusions

In our opinion, except for the issues raised in Section II, findings #2 and #6, and subject to the effects, if any, of the issue discussed in finding #1, for the period from July 1, 1985 to December 31, 1987, the Council on Black Minnesotans properly recorded, in all material respects, its financial transactions on the statewide accounting system.

Due to the situation discussed in the Scope Limitation section of this letter, recording of financial transactions on the statewide accounting system for the period from July 1, 1984 to June 30, 1985 could not be evaluated by us, and accordingly, we do not express an opinion on the recording of financial transactions for fiscal year 1985.

In our opinion, except for the issues raised in Section II, findings #1 through #3, for the period July 1, 1985 to December 31, 1987, the Council on Black Minnesotans administered its programs in compliance, in all material respects, with applicable finance-related laws and regulations.

Due to the situation discussed in the Scope Limitation section of this letter, compliance with finance-related laws and regulations for the period from July 1, 1984 to June 30, 1985 could not be evaluated by us, and accordingly, we do not express an opinion of agency compliance for fiscal year 1985.

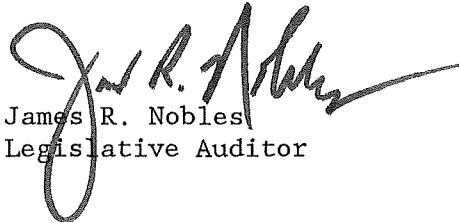
Our audit was conducted only for the limited purpose described in the Audit Scope section of this letter and would not necessarily disclose all material weaknesses in the Council's system of internal accounting control. Accordingly, we do not express an opinion of the system of internal accounting control of the Council of Black Minnesotans taken as a whole. However, our audit disclosed the issues discussed in Section II, findings #4 and #5, which we believe are important and should be addressed by the

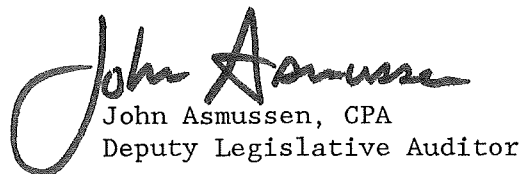
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management. Our audit also disclosed that, because of the limited size of the staff, the Council has limited separation of financial-related duties. A good system of internal accounting control contemplates an adequate segregation of duties so that no one individual handles a transaction from inception to completion. While we recognize that the Council is not large enough to permit an adequate separation of duties in all respects, it is important that the management is aware of this condition.

The recommendations included in the audit report are presented to assist the Council in resolving the audit findings and in improving accounting procedures and controls. We will be monitoring and reviewing the Council's progress on resolving these findings.

Pursuant to Minn. Stat. Section 3.975, this report shall be 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.


James R. Nobles
Legislative Auditor


John Asmussen, CPA
Deputy Legislative Auditor

June 15, 1988

COUNCIL ON BLACK MINNESOTANS

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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
Jeanine Leifeld, CPA	Audit Manager
Joan Haskin	Auditor-in-Charge

EXIT CONFERENCE

The findings and recommendations in this report were discussed with the following staff of the Council on Black Minnesotans and the Department of Administration on May 17, 1988:

Victor Propes, Executive Director
Mary Ann Williams, Administrative Secretary
Larry Dowdle, Department of Administration Accounting Director

COUNCIL ON BLACK MINNESOTANS

I. INTRODUCTION

The Council on Black Minnesotans, created in 1980, is a public policy research and planning agency. Primary functions of the Council are to advise the Governor and the Legislature on issues confronting Black people in the state, to recommend legislation, to serve as a conduit to state government, and to act as a referral agency.

The Council has seven public members appointed by the Governor and four ex-officio legislative members appointed by the Minnesota Senate and House. The Council employs three full-time staff. Victor Propes is the Executive Director.

Activities of the Council are financed through appropriations from the General Fund and grants and donations from foundations and organizations. Ten percent of the annual appropriation is available only upon demonstration of dollar for dollar match with nonstate contributions. This match has been met for fiscal years 1986 and 1987.

The following is a summary of the Council's expenditures for fiscal years 1985 through 1987:

	<u>FY 1985</u>	<u>FY 1986</u>	<u>FY 1987</u>
Personal Services	\$ 96,016	\$100,180	\$109,329
Rents and Leases	4,037	14,420	15,889
Advertising	188	100	72
Repair Services	56	-0-	-0-
Bonds and Insurance	-0-	-0-	1
Printing and Binding	2,686	2,442	3,424
Professional/Technical Services	-0-	-0-	3,160
Purchased Services	718	54	3,028
Communications	3,532	2,872	3,235
Travel	6,633	5,046	7,196
Fees	145	346	50
Supplies and Materials	1,769	1,220	2,068
Equipment	1,577	-0-	-0-
Grants and Aids	<u>-0-</u>	<u>-0-</u>	<u>50</u>
Total	<u>\$117,357</u>	<u>\$126,680</u>	<u>\$148,042</u>

COUNCIL ON BLACK MINNESOTANS

II. CURRENT FINDINGS AND RECOMMENDATIONS

1. The Council does not consistently use positive time reporting.

Currently, Council employees are not completing individual time sheets. Two Council staff members have not completed biweekly time reports since January 21, 1986. The other employee has not completed an individual time sheet since April 28, 1987. In addition, leave request forms are not completed for annual and sick leave taken. Department of Finance policy 07:04:21 requires positive time reporting, in which each employee must complete a time sheet showing the number of hours worked that pay period. Time sheets are to be reviewed and signed by both the employee and supervisor. Department of Finance policy 07:04:23 requires employees to complete leave request forms for annual and sick leave.

Payroll costs account for about 75 percent of the Council's operating budget. Without time sheets and leave slips, there is no complete and accurate documentation of hours worked to support this major expense category. Also, there is no certification from employees that they have worked their required hours and are entitled to their paycheck. Because individual time sheets are not prepared, the Council secretary must prepare Biweekly Payroll Time Reports showing hours worked by each employee based on an informal sign-out sheet maintained in the Council office. This sign-out sheet does not provide proper documentation and control of hours worked and leave taken.

RECOMMENDATION

- Each Council employee should complete biweekly time reports. The reports should be reviewed and signed both by the employee and the supervisor.

2. Parking fees for Council staff are paid from the Council's operating account.

The Council has been leasing three employee parking spaces from a private company since March 1985. These spaces have been paid for with Council operating funds at a current cost of \$159 per month. The parking lease was not negotiated and approved by the Real Estate Management Division of the Department of Administration, as required by Finance operating policy 06:04:09. In addition, Council employees have not paid any portion of these parking costs. Concerning employee parking, Minn. Stat. Section 16B.58, Subd. 8, provides:

"Notwithstanding any other law to the contrary, the commissioner [of Administration] 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."

COUNCIL ON BLACK MINNESOTANS

The Department of Administration charges employees who are provided parking facilities outside the Capitol Complex at the same rate as would be charged that employee for similar Capitol Complex parking. Pursuant to this Department of Administration guideline, Council employees should have had \$5.08 deducted from from each biweekly payroll check for their parking.

Approximately \$4,200 was paid by the Council for employee parking during the period July 1, 1985 to December 31, 1987. We believe the Council initiated the parking arrangement in good faith and had no intent to claim a benefit to which they were not entitled. However, the individual Council employees should have paid at least a portion of their parking charges. Therefore, pursuant to Minn. Stat. Section 3.975, this report shall be 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.

RECOMMENDATIONS

- The Council should contact the Real Estate Management Division of the Department of Administration to negotiate a lease for parking spaces.
- The Council should repay state funds used for parking expenses, if directed by the Attorney General.

3. The Council does not comply with state regulations for submitting a special expense plan and does not consistently use special expense forms.

The Council has paid many expenditures which, according to current state rules, are classified as "special expenses" and therefore require prior special expense approval. Examples of special expenses incurred by the Council include an annual meeting that included a hotel meeting room and food, a Council retreat that also included a hotel meeting room and breakfast, and an engraved plaque for a former Council member. Also, because the Executive Director of the Council does not receive an annual department head allowance, such routine items such as doughnuts and coffee for hearings and an open house, and coffee for the Council office may also need special expense approval.

Special expense guidelines have been promulgated by the Department of Employee Relations (Administrative Procedure 4.4). Procedure 4.4 provides that "special expenses are expenses in connection with assigned official duties of a state employee which are not reimbursable through regular expense regulations." Special expenses are to be approved by the Department of Employee Relations (DOER) before the costs or commitments are incurred. An agency can submit a special expense plan to DOER for approval, which allows the agency to approve any special expenses shown within the plan. Any special expense that is not addressed in the approved plan may be individually approved in advance by submitting special expense forms to DOER.

COUNCIL ON BLACK MINNESOTANS

RECOMMENDATIONS

- The Council should submit a special expense plan to DOER for approval.
- The Council should consistently use special expense forms in cases where the expense is not directly allowed under state regulations.
- The Council should have all special expenses not included in their special expense plan approved in advance by DOER.

4. Internal controls over receipts need to be strengthened.

The Council receives grant and gift donations from various foundations and organizations. The receipts are initially received at the Council office and are brought to the Department of Administration's Fiscal Services Division where they are processed and deposited into the State Treasury. Minn. Stat. Section 16A.275 generally requires receipts totalling \$250 or more be deposited daily. Controls over Council receipts need to be improved in three areas.

First, receipts are not deposited promptly. During fiscal year 1987, a \$2,000 grant check was not deposited for 81 days. The check remained in the Council office for 77 days before being brought to Department of Administration for processing, where it was held for four days before being deposited. During fiscal year 1988, a \$1,500 grant check was not deposited for 27 days. The check remained in the Council office for 10 days and in Administration for 17 days. Failure to promptly deposit receipts causes an increased possibility of loss, creates additional work in recording and safeguarding, and reduces the interest income that could be earned on the funds.

When a check is received at the Council, the administrative secretary makes a copy of the check and the accompanying letter for her files. She then takes the check to Administration for processing, where the check is restrictively endorsed. In order to lessen the chance of misappropriation, all checks should be restrictively endorsed at the Council office immediately upon receipt.

Finally, the Council does not always receive a copy of the deposit slip prepared by Administration. In addition, they do not receive monthly statewide accounting (SWA) receipt reports. These documents are necessary so the Council can reconcile receipts deposited with their copies of incoming checks. Department of Finance policy 06:06:03 requires that a receipts reconciliation be performed each month. Reconciliations ensure that receipts have been deposited promptly and properly recorded in SWA.

COUNCIL ON BLACK MINNESOTANS

While Council receipts only totalled \$78,083 for fiscal years 1985 through 1987, the amount of receipts may grow in future years due to the 10 percent matching requirement. Therefore the Council should develop an adequate system of internal control over these receipts.

RECOMMENDATIONS

- Receipts should be deposited daily whenever they total or exceed \$250, according to Minn. Stat. Section 16A.275.
- The Council should restrictively endorse checks immediately upon receipt.
- The Council should maintain copies of all checks received and/or a receipt log. The Council should reconcile receipts to deposit slips and to SWA receipt reports.

5. Internal controls over purchases and disbursements need to be strengthened.

Currently, the Council administrative secretary performs all duties relating to purchasing and disbursing. She prepares and signs purchase orders, receives goods, and approves invoices for payment. A strong system of internal control requires adequate separation of duties, so that no one person is authorized to handle all aspects of a transaction from beginning to end. To the extent possible, initiation and approval of transactions should be separated from one another to decrease the chance of errors or irregularities going undetected. In order to provide better separation of duties over the disbursement process, the Executive Director should approve purchase orders, and review and approve invoices for payment.

RECOMMENDATION

- The Executive Director should approve purchase orders and review and approve invoices for payment.

6. All of the Council's fixed assets are not recorded on the Fixed Asset Record Management System (FARMS).

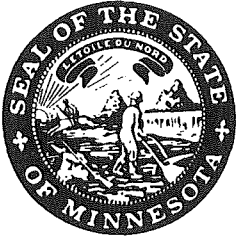
Two fixed assets were purchased by the Council during the audit period, a telephone answering machine and an update for a memory typewriter. The answering machine does not appear on FARMS. While the typewriter does appear, the asset number on it does not agree with the asset number recorded on FARMS. Also the value of the typewriter has not been adjusted on FARMS to reflect the addition of the update. In addition, at the time of our audit, at least two asset stickers recorded on the FARMS report as currently in use were in a filing cabinet and had not been placed on the assets.

COUNCIL ON BLACK MINNESOTANS

Council staff should review the FARMS report to ensure that all fixed assets are recorded properly. Any assets not on the report should be added and any incorrect asset numbers should be corrected. Asset stickers should be placed on assets as soon as the assets are received. Without proper recording, the value of fixed assets may be understated. Also, incomplete recording does not allow for the proper physical control of assets owned by the Council.

RECOMMENDATIONS

- Unrecorded fixed assets should be added to FARMS.
- The FARMS report should be reviewed periodically to verify that fixed assets are recorded properly.
- Asset stickers should be placed on all fixed assets owned by the Council.



STATE OF MINNESOTA
COUNCIL ON BLACK MINNESOTANS

289 East 5th Street, Suite 210 • St. Paul, MN 55101 • (612) 297-3708

June 15, 1988

Mr. James R. Nobles,
Legislative Auditor
State of Minnesota
Office of the Legislative Auditor
Veterans Service Building
Saint Paul, Minnesota 55155

**REFERENCE: Minnesota State Council on Black Minnesotans Financial
and Compliance Audit, July 1, 1984-December 31, 1987**

Dear Mr. Nobles:

I. Introduction

In response to the findings and recommendations cited in the legislative audit, we are appreciative of the opportunity to review our financial procedures with your office. We have felt there should have been an established standard operating procedures manual provided all state councils regarding established procedures.

It should be noted, that upon assuming the directorship of this agency, I formally requested some sort of administrative overview of Commissioner Sandra Hale, MN Department of Administration. The request was refused and I was informed that I should seek such services from a private contractor. The request seemed reasonable within the Minnesota Council on Black Minnesotans (MN CBM) enabling statute.

Subd. 6. State agency assistance. Other state agencies shall supply the council upon request with advisory staff services on matters relating to the jurisdiction of the council and the council shall cooperate and coordinate its activities with other state agencies to the highest possible degree.

Regardless of these sets of circumstances, we acknowledge that the ultimate responsibility with the laws and regulations are ours and we are supportive of this opportunity to get our house in order.

II. Responses to Current Findings and Recommendations

1. The Council does not consistently use positive time reporting.

MN CBM staff will begin immediately to complete biweekly time reports. These reports will be reviewed by the Executive Director and signed by the Director and the employee.

The Director will co-sign his time reports due to the logistics of having the Chairman signing his/her time reports.

2. Parking fees for the Council staff are paid from Council's operating account.

MN CBM is currently contacting the Real Estate Management Division and Plant Management Division of the Department of Administration to resolve this finding.

We are awaiting the Attorney General review of this situation and recommended solution.

3. The Council does not comply with state regulations for special expenses.

The Council is requesting that wording of the above #3 be re-worded to say, "The Council does not comply with state regulations for submitting a 'special expense plan' and does not consistently use 'special expense forms.'"

MN CBM will submit a special expense plan as prescribed to the Minnesota Department of Employee Relations for approval.

The Council will use special expense forms in cases where expenses are not directly allowed under state regulations.

The Council is requesting a further clarification and explanation of the third recommendation cited in this finding.

4. Internal controls over receipts to be strengthened.

All receipts are now deposited with Fiscal Services Division, Department of Administration on the day received, or within twenty-four (24) hours.

The Council has purchased a stamp to restrictively endorse checks upon receipt.

The Council has purchased a journal and receipt book to record receipt of checks.

Mr. James R. Nobles,
Legislative Auditor
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5. Internal controls over purchases and disbursements.

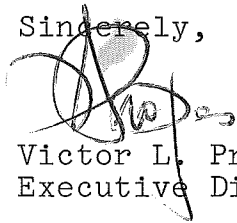
The Council's Director now approves all purchase orders issued and signs them.

The Council's Director now reviews and approves all invoices for payment with his initial and date of approval.

6. All of the Council's fixed assets are not recorded on the Fixed Asset Record Management System (FARM).

All findings and recommendations are being complied with at this time.

Sincerely,

A handwritten signature in dark ink, appearing to read "Victor L. Propes", is written over the typed name and title.

Victor L. Propes, MN CBM
Executive Director

VLP:mw

cc: A. A. McFarlane, MN CBM Chairman