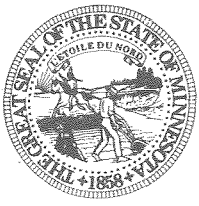


**MINNESOTA STATE ARTS BOARD
FINANCIAL AND COMPLIANCE AUDIT
FOR THE FIVE YEARS ENDING JUNE 30, 1987**

AUGUST 1988

**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

Representative Phillip J. Riveness, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Ms. Karen Gray, Chair
Minnesota State Arts Board

Members of the Minnesota State Arts Board

Dr. Sam Grabarski, Executive Director
Minnesota State Arts Board

Audit Scope

We have completed a financial and compliance audit of the Minnesota State Arts Board for the five years ending June 30, 1987. 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 Government Auditing Standards, and accordingly, included such audit procedures as we considered necessary under the circumstances. Field work was completed on March 25, 1988.

The objectives of the audit were to:

- study and evaluate major Minnesota State Arts Board internal control systems, including receipts, disbursements, payroll, cash funds, and fixed assets;
- verify that financial transactions were properly recorded in the statewide accounting (SWA) system;
- verify that financial transactions were made in accordance with applicable laws, regulations, and policies, including Minn. Stat. Chapter 139, and other finance-related laws and regulations; and
- determine the status of prior audit recommendations included in our audit report for the years ended June 30, 1981 and 1982.

Management Responsibilities

The management of the Minnesota State Arts Board is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments 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

Representative Phillip J. Riveness, Chair
Members of the Legislative Audit Commission
Ms. Karen Gray, Chair
Members of the Minnesota State Arts Board
Dr. Sam Grabarski, Executive Director
Minnesota State Arts Board
Page 2

against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with procedures may deteriorate.

The management of the Minnesota State Arts Board is also responsible for compliance with laws and regulations. In connection with our audit, we selected and tested transactions and records from the programs administered by the Minnesota State Arts Board. The purpose of our testing transactions was to obtain reasonable assurances that management had, in all material respects, administered its programs in compliance with applicable laws and regulations.

Audit Techniques

During our audit we employed a variety of audit techniques. These included but were not limited to auditor observation, interviews with Minnesota State Arts Board staff, analytical reviews to identify unusual transactions or trends, and the examination of documentation supporting a representative number of transactions. Random sampling techniques were used to assure that representative samples of transactions were chosen. However, the use of random sampling did not prohibit us from reviewing additional transactions which may have come to our attention during the audit.

Because of the problems discussed in the following section on special expenses and in Section II, finding 1, we extended our testing for certain expenditure transactions through December 9, 1987. This extended work included, but was not limited to, travel and subsistence reimbursements and expenditures incurred at a private club.

Difficulty Interpreting Rules Regarding the Purpose and Scope of Special Expense Guidelines

Our audit included a review of expenditures made at a private club where the Minnesota State Arts Board maintained a membership. The Department of Employee relations is responsible for approving expenditures made outside the normal employee expense reimbursement guidelines. The decisions are based on Administrative Procedure 4.4 entitled "Special Expenses." The board did not have prior approval to incur the expenditures at the club, but did receive retroactive approval from the Commissioner of Employee Relations after the propriety of the expenses was questioned.

Representative Phillip J. Riveness, Chair
Members of the Legislative Audit Commission
Ms. Karen Gray, Chair
Members of the Minnesota State Arts Board
Dr. Sam Grabarski, Executive Director
Minnesota State Arts Board
Page 3

We have concerns regarding the process governing special expenses. The guidelines are broad and are very much open to interpretation. This problem is aggravated because the Department of Employee Relations (DOER) does not perform a very rigorous review of special expense plans submitted by state agencies. Rarely has DOER challenged or denied a proposed plan. Furthermore, the practice of offering retroactive approval, as with the MSAB, illustrates a disregard for proper control. We believe the present special expense process provides an unnecessary risk for inappropriate expenditures. Therefore, we intend to refer this issue to the Departments of Finance and Employee Relations so that it may be reconsidered.

Conclusions


In our opinion, except for the issues discussed in Section II, findings 2, 5, and 6, the Minnesota State Arts Board's system of internal accounting control in effect on January 29, 1988, 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.

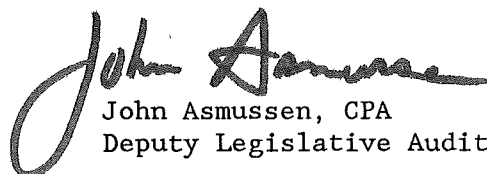
In our opinion, for the five years ended June 30, 1987, the Minnesota State Arts Board properly recorded, in all material respects, its financial transactions on the statewide accounting system.

In our opinion, except for findings 1, 3, and 4, discussed in Section II of this report and relying upon the Department of Employee Relations' final determination on special expenses, as previously discussed, for the five years ended June 30, 1987, the Minnesota State Arts Board administered its programs in compliance, in all material respects, with applicable finance-related laws and regulations, and with Minn. Stat. Chapter 139.

Section II of this report contains the findings we developed during this audit. The recommendations are presented to assist the board in resolving the audit findings and in improving accounting procedures and controls. We will be monitoring and reviewing your progress in resolving these findings after the dates projected for completion as identified in the response to this report. Section III includes a summary of the progress on all recommendations developed during our audit of the Minnesota State Arts Board for the years ended June 30, 1981 and 1982. (Report dated September 20, 1983.)

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


James R. Nobles
Legislative Auditor
August 18, 1988


John Asmussen, CPA
Deputy Legislative Auditor

MINNESOTA STATE ARTS BOARD

TABLE OF CONTENTS

	<u>Page</u>
I. INTRODUCTION	1
II. CURRENT FINDINGS AND RECOMMENDATIONS	2
III. STATUS OF PRIOR AUDIT RECOMMENDATIONS AND PROGRESS TOWARD IMPLEMENTATION	8
AGENCY RESPONSE	11

AUDIT PARTICIPATION

The following staff from the Office of the Legislative Auditor prepared this report:

John Asmussen, CPA	Deputy Legislative Auditor
Warren Bartz, CPA	Audit Manager
Patrick Ryan	Auditor-in-Charge
Linda Lochner	Staff Auditor

EXIT CONFERENCE

The findings and recommendations in this report were discussed with the following staff of the Minnesota State Arts Board on May 12, 1988:

Sam Grabarski, Ph.D.	Executive Director
John Firman	Assistant Director
Rick Jeanette	Accounting Director
Natalie Madgy	Grants Officer
Gail Swaim	Administrative Assistant

MINNESOTA STATE ARTS BOARD

I. INTRODUCTION

The Minnesota State Arts Board was first established as the State Arts Society by the Legislature in 1903. The Society sponsored exhibitions and actively promoted the folk arts and crafts until 1947 when the Legislature withdrew its appropriation.

In 1956, the Society was revived and an eleven member board was created to direct its activities. The Society became involved in many arts-related activities including sponsoring traveling exhibitions, designing and erecting monuments, and offering scholarships to students and artists. In 1965, the Legislature dissolved the Arts Society and created the Minnesota State Arts Council in its place. In 1976, the Arts Council was officially renamed the Board of the Arts, as shown in Minn. Stat. Chapter 139. The board now uses Minnesota State Arts Board as its title (MSAB). Today the board is involved in providing grants to Minnesota art organizations, individual artists, and the sponsorship of national and regional arts related events. It also functions as an information clearing house providing technical expertise and assistance through its staff and other resources. The board was involved with developing 11 regional art councils. Dr. Sam Grabarski has served as executive director since November 1984.

In fiscal year 1987, the board was appropriated \$2,747,400 from the Legislature. In addition to state funds, the board received \$508,500 from the federal government and \$704,500 from private sources. The following is a summary of the board's fiscal year 1987 expenditures:

	<u>FY 1987</u>
Personal Services	\$ 427,606
Travel	42,605
Supplies and Equipment	31,800
Other Administrative Expenditures	237,354
Grants and Aids	<u>3,328,982</u>
TOTAL	<u>\$4,068,347</u>

MINNESOTA STATE ARTS BOARD

II. CURRENT FINDINGS AND RECOMMENDATIONS

1. MSAB maintained a membership at a private club and paid related meal and meeting expenses without prior special expense approval.

MSAB maintains a corporate membership at a private club, which is located adjacent to the board's offices. The cost of the membership is \$300 annually, \$100 for membership cards for the executive director and the assistant director, and a minimum usage requirement of \$45 per quarter. MSAB uses the club to hold luncheon meetings and also rents rooms for board meetings and conferences. These events are attended by board staff, board members, grantees, and other agency clients. MSAB has spent approximately \$4,000 at the club since July 1984, of this amount we have considered \$3,490 of the expenditure to be questionable. The remaining \$510 was used to pay the meals of agencies from which grant funds were solicited.

MSAB maintains that the membership is needed for three reasons: the club provides an atmosphere for business meetings which is "less threatening" to agency clients than the MSAB offices, MSAB can rent air conditioned meeting rooms during the summer when the agency meeting room is too hot, and the board meeting room is not accessible to handicapped persons. The agency is in close proximity to the capital complex where several meeting rooms are available to state agencies. We know of no other agency having a similar membership, and we are concerned that a precedent will be set.

We requested a listing of the purposes and the persons attending meetings held at the club since July 1984. This documentation was missing from the board records. The listing was reviewed and we have questioned the reasonableness of many of the expenditures. Among the items questioned:

- Luncheons with agency grantees to discuss various issues, including ways in which potential grantees of the agency could be more competitive in the board's panel review process.
- Lunches provided to board members when board meetings go beyond noon. One board member received reimbursement for a lunch which had already been paid by the board under this procedure.
- A breakfast meeting between the executive director and the assistant director to prepare for a luncheon meeting with a board member.

Generally, state employees and board members would not be entitled to meal reimbursements under existing guidelines. However, the special expense guidelines were established to provide an exception under certain circumstances. Department of Employee Relations Administrative Procedure 4.4 entitled "Special Expenses," states the full cost of a meal may be paid when it is part of a structured agenda of a workshop, seminar, or meeting.

MINNESOTA STATE ARTS BOARD

The procedure also states that this does not include routine staff meetings. Therefore, we believe that this procedure authorizes agencies to hold special activities but only on a limited basis. Our review of the expenses incurred at the club shows that providing meals to board members, board employees, and agency clients was a routine way to conduct business. Providing meals to staff, board members, and agency grantees on a routine basis seems to conflict with the purpose of state expense reimbursement guidelines. There are times when business meals are an appropriate expense, but they should be infrequent. It is a matter of degree.

MSAB did not have special expense authority for the expenditures incurred at the club. We objected to the frequency and nature of the events and the day-to-day, routine method of financing such meals and meetings. When the expenditures were questioned, MSAB requested and received retroactive approval from the Department of Employee Relations, including the amounts we believed were questionable or unallowable. Although approval was granted, we believe that many of the meetings need not have been held at the club and that meals need not have been provided.

Several activities which they have included would be acceptable as department head expense, but they do not have such an allowance. For example, lunch with a former legislative aid to discuss legislative issues related to an agency's appropriation request could be considered an appropriate expenditure.

Minnesota statutes provide department head expense for various agency heads in Section 15A.081, Subd. 8. Those department heads eligible for an expense allowance are specifically listed, but the board is not mentioned in the statute. Many of the payments would have been permitted under department head expense if the executive director had been given such an allowance. Failure to have a department head expense allowance has led them to make payments which were retroactively approved as special expense.

RECOMMENDATIONS

- MSAB should obtain prior approval before special expenses are incurred.
- MSAB should refrain from providing meals to board staff, board members, and agency grantees on a routine basis and should follow special expense reimbursement guidelines.
- MSAB should analyze the need to maintain a membership at the private club and justify its usage.
- MSAB should seek department head expense authority from the Legislature in lieu of routinely paying allowable items as special expenses.

MINNESOTA STATE ARTS BOARD

2. PRIOR FINDING NOT RESOLVED. Cash receipt procedures need improvement.

The MSAB collected approximately \$1,348,000 of receipts in fiscal year 1986 and approximately over \$1,218,000 in fiscal year 1987. The receipts result from federal and private grants and, except for some administrative expenditures, are disbursed to individuals and art organizations throughout the state.

The receipt procedures have several internal control weaknesses, including:

- some receipts were not entered onto the mail listing;
- receipts were not deposited promptly;
- the mail listing of receipts was not reconciled to statewide accounting (SWA) deposit reports; and
- receipt and deposit functions were not adequately separated.

These same problems also existed during our previous audit of the MSAB.

The MSAB does have a procedure to record receipts onto a mail listing so that all receipts can be reconciled to SWA deposit records. However, the MSAB was not completing the reconciliation and all receipts were not being recorded on the mail listing. If all receipts are not recorded on the mail listing, the MSAB cannot use the listing to reconcile to SWA deposit records, and thus, cannot verify that all receipts received by the agency are properly deposited.

Receipts were also not deposited promptly. We tested 21 checks and found that 15, totaling approximately \$98,000, were not deposited until up to 22 days after being received. Minn. Stat. Section 16A.275 requires that agencies deposit receipts each day when they total \$250 or more. Failure to deposit checks promptly makes the checks susceptible to loss or theft, and also results in lost investment income for the state.

The MSAB has a procedure in which the person in charge of preparing deposits reconciles deposit totals to SWA deposit reports. However, to verify that all receipts received by the MSAB are deposited, the reconciliation process needs to be expanded to include a comparison of the totals of the mail listing to deposit totals shown on SWA deposit reports by a person independent of the actual deposit process.

RECOMMENDATIONS

- The person who opens mail should comply with established procedures for preparing a daily listing of all receipts received by the MSAB.
- Receipts should be deposited on a daily basis when they total \$250 or more.

MINNESOTA STATE ARTS BOARD

- The reconciliation of receipts should be done by a person independent of the depositing process and should include verifying that receipts on the mail listing were properly recorded on the statewide accounting system. Any differences should be investigated.

3. The MSAB is not correctly processing gifts and donations.

The MSAB has statutory authority to accept gifts and donations from private sources. These funds are then granted to individuals, art organizations and specific projects in which the agency is involved. In fiscal year 1987, the MSAB received gifts of approximately \$34,000 from private sources.

Minn. Stat. Section 7.09 authorizes state agencies to receive gifts from any source. An agency must study each gift offer to determine if it will benefit the state and if it conforms to the agency's objectives. The gift is acceptable if these two criteria are met. Most agencies must receive approval from the State Treasurer and the Commissioner of Finance in order to accept a gift. Because the MSAB has statutory authority to accept gifts, only the executive director and the agency's executive budget officer must review and approve the gift.

The Department of Finance requires that gift acceptance forms should be filed for each gift of \$100 or more, as shown in Operating Policy and Procedure 06:06:07. The MSAB has not filed gift acceptance forms for gifts received. The Finance policy requires that the details and descriptions of the gifts' purpose and conditions be established in writing. Before accepting a gift, the agency head and the agency's executive budget officer must review and approve the gift to ensure benefit to the state and conformance to the agency's objectives.

RECOMMENDATION

- The MSAB should complete gift acceptance forms outlining the purpose and condition of each gift received.

4. Revenue earned from the sale of mailing lists is not being credited to the General Fund.

The MSAB sells mailing lists consisting of the names and addresses of individuals and organizations which have applied for grant funds from the board. The listings are sold to organizations who certify that the names and addresses will be used for projects judged to be of benefit to the individuals and organizations which appear on the listings. The information is not released for solely commercial purposes unrelated to the arts or humanities. Users requesting the information are required to submit a signed statement explaining how the lists will be used, and that they will not be resold or used for purposes other than those stated in the original request approved by the MSAB.

MINNESOTA STATE ARTS BOARD

The sale of mailing lists produced revenue of \$757 in fiscal year 1986, \$1,460 in fiscal year 1987, and \$1,491 through March 1988. For fiscal years 1986 and 1987, the MSAB deposited the revenue into a federal account. Beginning in fiscal year 1988, the funds were deposited as a dedicated receipt into a gift account set up by the board. The funds are to be used for the development of new programs. At July 6, 1988, there was an unexpended balance of \$1,550 that should be transferred.

Minn. Stat. Section 16A.72 pertains to income received by state agencies. The statute states that unless an agency has specific authority to retain receipts, all income, including fees or receipts of any nature, is to be credited to the General Fund. The MSAB does not have specific authority to retain the income generated by selling the mailing lists.

RECOMMENDATION

- Revenue received from the sale of mailing lists and other miscellaneous receipts should be credited to the General Fund. The unliquidated balance from past sales should be cancelled to the General Fund.

5. PRIOR FINDING NOT RESOLVED. Duties are inadequately separated in the purchasing and disbursing functions.

The MSAB processed approximately \$3,641,000 in nonpayroll disbursements in fiscal year 1987. The internal controls over the purchasing and disbursement functions are weak because the duties associated with the process are not adequately separated. This problem also existed during our previous audit.

Currently, the accounting director is responsible for preparing and approving purchase orders, approving payments, and entering the payments onto the SWA system. Such duties are incompatible because when both the approval of purchases and the disbursement of money is with one individual, the possibility that incorrect or unauthorized purchases may occur without being detected is increased. While the board staff is small, an adequate separation of duties is still possible and critical to the strength of internal accounting control. The assistant director or another employee could authorize purchase orders as an alternative.

Adequate separation of the purchasing and disbursing functions between individuals provides a degree of assurance as to the accuracy and reliability of the system. Separation of these duties helps to prevent intentional and unintentional errors, and also provides a check of the work done.

RECOMMENDATION

- The assistant director or another employee should approve purchase orders prepared by the accounting director, or an alternate method of separating purchasing duties should be initiated.

MINNESOTA STATE ARTS BOARD

6. PRIOR FINDING NOT RESOLVED. Internal controls over nonpayroll disbursements need improvement.

The use of purchase orders is inconsistent, documentation supporting the receipt of goods is lacking, and certain purchase orders and travel expense reimbursements are not properly authorized. These problems occur, especially for items purchased under MSAB's local purchase authority.

The MSAB does not prepare purchase orders consistently for goods purchased. We found that 24 of 71 disbursements tested were not supported by a purchase order. Without purchase orders there is no documentation to show that the purchase was authorized, money was available, or proper finance procedures were followed. Department of Finance Operating Policy and Procedure 06:04:04 requires a department purchase order for all purchases in order to ensure that proper control and documentation are present.

The MSAB made disbursements for goods without any documentation that the goods were received. Currently, payments are made based on personal knowledge or verbal indication that the goods were received. Without adequate documentation, erroneous payments could be made for goods not received.

Further review of purchase orders that were used and employee expense reimbursements showed that payments are not being properly authorized. Proper authorization was not found for 37 of the 71 administrative expenses and 28 of 97 travel reimbursements tested. Unauthorized travel and expenses or excessive amounts could be paid and go undetected without proper review and authorization.

RECOMMENDATIONS

- Department purchase orders should be used for all items purchased under MSAB's local purchase authority.
- Documentation signed by an authorized employee receiving the goods should be required prior to the payment of the invoice. A receiving report or written notation on an invoice copy could be used to provide the necessary information.
- All travel expense reports should be signed by the appropriate supervisor to show proper authorization.

MINNESOTA STATE ARTS BOARD

III. STATUS OF PRIOR AUDIT RECOMMENDATIONS
AND
PROGRESS TOWARD IMPLEMENTATION

The accounting for private foundation grants needs to be better defined.

1. The existing agreement between a private foundation and the MSAB should be modified to show:
 - that a separate financial schedule is no longer required from the recipients, and that the subgrants may be used for any general support purpose; and
 - the allowable use of the \$25,000 provided for administrative expenses.

RECOMMENDATION IMPLEMENTED. In a letter dated July 10, 1984, the private foundation modified the agreement with the MSAB by no longer requiring separate financial schedules from recipients. In the same letter, the private foundation clarified the allowable uses of administrative funds.

2. The agreements between the MSAB and the recipients of subgrants should be modified to remove the requirement of a financial schedule indicating the use of subgrant money.

RECOMMENDATION IMPLEMENTED. In July 1984, with the approval of the private foundation, the MSAB modified the agreements with recipients by removing the requirement of providing a financial schedule.

3. All private grant administrative allowances should be used within the appropriate grant period prior to expending completely the state appropriation.

RECOMMENDATION IMPLEMENTED. In fiscal year 1984, the MSAB expended all accumulated private grant administrative funds. Since fiscal year 1984, MSAB has expended private grant administrative funds prior to expending completely the state appropriation.

Cash receipt procedures need improvement.

4. The person who opens the mail should comply with established procedures for preparing a daily listing of all receipts.
5. Receipts should be deposited on a daily basis when they total \$250 or more.
6. The reconciliation of receipts should include verifying the receipts on the mail listing to SWA records, and accounting for any differences.

RECOMMENDATIONS NOT IMPLEMENTED. See current finding #2.

MINNESOTA STATE ARTS BOARD

Internal controls over nonpayroll disbursements need improvement.

7. The procedures for travel expense reimbursement should be strengthened to ensure that all travel expenses are properly documented, reviewed, and authorized. All travel expense forms should be signed by the employee and the supervisor.
8. Documentation signed by an authorized employee receiving the goods should be required prior to the payment of an invoice. A receiving report or a notation on an invoice copy could be used to provide the necessary information.
9. Department purchase orders should be used for all items purchased under the MSAB's local purchase authority.

RECOMMENDATIONS NOT IMPLEMENTED. See current finding #6.

Duties are not separated in several accounting functions at the MSAB.

10. The incompatible functions of certain accounting areas should be segregated, so that one individual does not have complete control over the processing of accounting transactions for:
 - receipts,
 - purchases, and
 - payroll and personnel.

RECOMMENDATION PARTIALLY IMPLEMENTED. Since May 1983, the duties involved in preparing payroll have been adequately separated. However, duties involving receipts and purchases still are not adequately separated. See current findings #2 and #5.

Control over payroll disbursements is inadequate.

11. Leave request forms approved by the immediate supervisors should be required from all employees when leave is taken.

RECOMMENDATION SUBSTANTIALLY IMPLEMENTED. Leave request forms were required to be used by all employees and authorized by their appropriate supervisor since October 1984. Occasionally leave requests were not available, but, in all cases tested, leave requests were authorized.

12. The MSAB should follow Operating Policy and Procedure 07:04:09 of the Personnel/Payroll Operations Manual when completing the time rosters and prepare them directly from the employees' time sheets. Time sheets should be signed by the employees and approved by the immediate supervisors.

RECOMMENDATION IMPLEMENTED. Since May 1983, time sheets were used to prepare the time rosters.

MINNESOTA STATE ARTS BOARD

13. A written policy for the earning and use of compensatory time by MSAB employees should be implemented and followed.

RECOMMENDATION IMPLEMENTED. A written policy was developed in May 1983.

The annual report to the Governor and the Legislature is incomplete.

14. Future annual reports should include all information required by Minn. Stat. Section 139.08, Subd. 5.

RECOMMENDATION IMPLEMENTED. Annual reports submitted to the Governor and the Legislature since fiscal year 1983 have included all information required by Minn. Stat. Section 139.08, Subd. 5.

MINNESOTA
STATE
ARTS
BOARD

August 18, 1988

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

Dear Mr. Nobles:

This correspondence is in response to the findings and recommendations contained in the draft copy of the MSAB audit report for the five year period ending June 30, 1987.

On behalf of the board we would like to thank Mr. Bartz, and the audit team, for the work the Office of the Legislative Auditor has done in evaluating the agency's system of internal accounting controls. We particularly appreciate a concluding statement in your transmittal letter that certifies that "...taken as a whole" the board's "...assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly."

The information contained in the following paragraphs corresponds to the findings and recommendations made in the audit report and constitute the agency's formal response to perceived deficiencies in the board's operations.

AUDITOR'S FINDING #1

I. Special expenses relating to membership at the University Club.

AUDITOR'S RECOMMENDATION

A. MSAB should obtain prior approval before special expenses are incurred.

AGENCY RESPONSE

- On March 24, 1988 the MSAB filed a plan and received authority from the Department of Employee Relations (DOER) to approve special expenses which are not reimbursable through the state's routine expense regulations. The plan reflects language contained in the DOER Procedure 4.4, posting date 5/11/87. The DOER gave approval for both retroactive and future special expense authority beginning July 1, 1984 and continuing through an unspecified period. The board contends that it is in compliance with DOER approved guidelines and

if a disagreement exists, its resolution appears to be between the DOER and the Office of the Legislative Auditor.

AUDITOR'S RECOMMENDATION

- B. MSAB should refrain from providing meals to board staff, board members, and agency grantees on a routine basis and should follow special expense reimbursement guidelines.**

AGENCY RESPONSE

- The MSAB disagrees that meals have been provided on a "routine" basis and contends that the audit report has unfairly characterized and overstated the board's use of special expense authority. The board submits that meals have been provided with prudent judgment and in accordance with the special expense plan filed with the DOER.

During the recent heat wave, for example, the board was concerned about the health and well-being of its staff and the volunteer members of one of its numerous advisory panels. The temperature within the MSAB office building ranged from 95-105 degrees and the board felt it was within prudent management practice to reserve an air-conditioned room at the University Club. The University Club is particularly important because of its proximity to the board's office building and the convenience it affords when carrying equipment, retrieving files and other documents, parking, ease of access by constituents unfamiliar with the Capitol complex or St. Paul, and overall cost-effectiveness. The board uses this membership only when it is necessary to accomodate constituents and other members of the public.

The MSAB has acted within DOER approved guidelines in which it is specifically stated that "special expenses are expenses incurred in connection with assigned official duties of a State employee which are not reimbursable through the regular expense regulations. Special expenses shall include but are not limited to:

1. The full cost of a meal when it is a part of the structured agenda of a conference, workshop, seminar, or meeting to which the appointing authority has authorized employee(s), board member(s), and/or advisory personnel to attend;
2. Refreshments or meals provided for meetings of predominately non-State participants; and
3. Annual fees required for corporate membership at the University Club in St. Paul, Minnesota."

AUDITOR'S RECOMMENDATION

- C. MSAB should analyze the need to maintain a membership at the private club and justify its usage.**

AGENCY RESPONSE

- The MSAB has analyzed the need for a membership at the facility in question and believes it to be a creative, inexpensive way to deal with the inadequacies of its existing historical office space; justification is inherent in the special expense authorization approved by the DOER. It must be stated that this is strictly a "corporate membership" that does not allow any social privileges. It is the most utilitarian membership offered by the University Club.

AUDITOR'S RECOMMENDATION

- D. MSAB should seek department head expense authority from the Legislature in lieu of routinely paying allowable items as special expenses.**

AGENCY RESPONSE

- The MSAB sees no reason to seek department head authority because it has acted properly in the use of special expense authorization. Again, for the record, the board does not use special expense authorization in a "routine" manner.

AUDITOR'S PRIOR FINDING NOT RESOLVED #2

II. Cash receipt procedures need improvement.

AGENCY RESPONSE

- In the context of procedural findings and recommendations within the audit the board must respond in general by stating that some of the suggested internal controls are difficult, but not impossible, to achieve because of the small size of board staff. The board has a staff of only fifteen people including a single fiscal officer responsible for all of the financial transactions of the agency.

AUDITOR'S RECOMMENDATION

- A. The person who opens the mail should comply with established procedures for preparing a daily listing of all receipts received by the MSAB.**

AGENCY RESPONSE

- The MSAB is in the process of training the appropriate support staff in the proper procedures for recording all receipts received. This procedure will be fully implemented by September 30, 1988.

AUDITOR'S RECOMMENDATION

- B. Receipts should be deposited on a daily basis when they total \$250 or more.**

AGENCY RESPONSE

- The MSAB makes every effort to deposit receipts that are \$250 or over on a daily basis. However, due to the small staff size, weekend delays, and leaves of absence by staff this is not always possible.
- The MSAB is correcting its procedures relating to this issue and implementation is expected to be completed by September 30, 1988.

AUDITOR'S RECOMMENDATION

- C. Reconciliation of receipts should be done by a person independent of the depositing process and should include verifying that receipts on the mail listing were properly recorded on the statewide accounting system. Any differences should be investigated.

AGENCY RESPONSE

- The MSAB is in the process of training a staff person to reconcile the receipt "log" against the statewide accounting deposit reports on a monthly basis. Implementation of this procedure will be completed by September 30, 1988.

AUDITOR'S FINDING #3

- III. The MSAB is not correctly processing gifts and donations.

AUDITOR'S RECOMMENDATION

- A. The MSAB should complete gift acceptance forms outlining the purpose and condition of each gift received.

AGENCY RESPONSE

- The MSAB has implemented this recommendation and forms will be processed by the agency's fiscal officer. It is our understanding, however, that this requirement does not apply to the agency's long-term partnerships with major private philanthropic corporations or foundations.

AUDITOR'S FINDING #4

- IV. Revenue earned from the sale of mailing lists is not being credited to the General Fund.

AUDITOR'S RECOMMENDATION

- A. Revenue received from the sale of mailing lists and other miscellaneous receipts should be credited to the General Fund. The unliquidated balance from past sales should be canceled to the General Fund.

AGENCY RESPONSE

- The MSAB will deposit all mailing list receipts into the General Fund beginning August 18, 1988. The mailing list fees have been collected in the past help to offset the administrative expenses incurred in producing this highly popular service to the public. The board asks to be excused from the recommendation to credit the unliquidated balance from past sales because it has already been carefully integrated into the agency's FY1989 budget and such a loss would cause a significant hardship on the board's strained operations budget.
- In addition, the MSAB will investigate the services of the Department of Administration's Document Division in providing future public access to this information.

AUDITOR'S PRIOR FINDING NOT RESOLVED #5

V. Duties are inadequately separated in the purchasing and disbursing functions.

AUDITOR'S RECOMMENDATION

A. The assistant director or another employee should approve purchase orders prepared by the accounting director, or an alternate method of separating purchasing duties should be initiated.

AGENCY RESPONSE

- The MSAB has accepted this recommendation and began implementation on July 1, 1988. It must be stated, however, that the agency also has in place a variety of other controls (such as contracts and other legal agreements) to ensure that purchasing and disbursing functions are appropriately managed. The board must comment for the record that the audit figure of \$3,641,000 in nonpayroll disbursements does not accurately represent actual "purchases or procurement of goods and service" made by the agency in FY1987. To clarify, \$3,328,982 or 91% of this amount was distributed in the form of grants to agency constituents and do not require a purchase order.

AUDITOR'S PRIOR FINDING NOT RESOLVED #6

VI. Internal controls over nonpayroll disbursements need improvement.

AUDITOR'S RECOMMENDATION

A. Department purchase orders should be used for all items purchased under the MSAB's local purchase authority.

AGENCY RESPONSE

- This recommendation was implemented on July 1, 1988 and purchase orders are being issued for all items authorized under the agency's local purchase authority.

AUDITOR'S RECOMMENDATION

B. Documentation signed by an authorized employee receiving the goods should be required prior to the payment of the invoice. A receiving report or written notation on an invoice copy could be used to provide the necessary information.

AGENCY RESPONSE

- This recommendation was implemented on July 1, 1988. Copies of purchase orders are being used primarily as receipt documents when packing slips or invoices are not available. The person receiving the merchandise is now certifying receipt by signing the purchase order, invoice, or packing slip.

AUDITOR'S RECOMMENDATION

C. All travel expense reports should be signed by the appropriate supervisor to show proper authorizations.

AGENCY RESPONSE

- This recommendation was implemented on July 1, 1988. The executive or assistant director will sign travel vouchers for agency staff and board. The assistant director or appropriate program manager will sign travel vouchers for volunteer advisory panel members.
- This recommendation, for the record, does not accurately represent the situation as it has existed. Travel vouchers have always been signed by authorized persons but the MSAB agrees that the above response provides better fiscal control for travel authorization.

In conclusion, the board is gratified that the results of the audit report are positive and that its assets are being well managed and safeguarded against loss from unauthorized use or disposition. We are confident that the board's response to the few findings and recommendations contained in the audit report reflect sound management practice and that, where appropriate, corrective action will be implemented within the stated timeline.

Again, thank you for your review of the board's operations and please contact us if you have additional questions or comments.

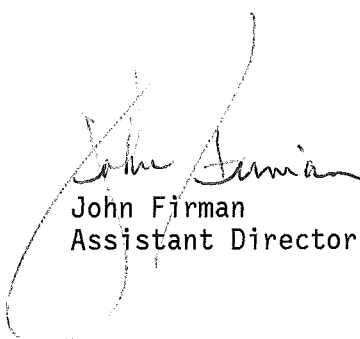
Sincerely,



Dr. Sam W. Grabarski
Executive Director

SWG/JF/pj

cc: MSAB Executive Committee



John Firman
Assistant Director