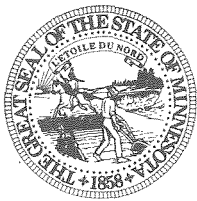


**STATE COUNCIL ON VOCATIONAL
TECHNICAL EDUCATION
FINANCIAL AND COMPLIANCE AUDIT
FOR THE PERIOD OF AUGUST 1, 1985
THROUGH JUNE 30, 1987**

SEPTEMBER 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, Chairman
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. John W. Mercer, Executive Director
State Council on Vocational Technical Education

Mr. Robert L. Widerski, President
State Council on Vocational Technical Education

Audit Scope

We have completed a financial and compliance audit of the State Council on Vocational Technical Education (Council) for the period of August 1, 1985 through June 30, 1987. Section I provides a brief description of the Council's activities and finances. The 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 tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. Field work was completed on April 22, 1988.

The objectives of this audit were to:

- study and evaluate major internal accounting control systems at the Council in effect as of March 22, 1988, including a review of receipts, administrative expenditures, payroll, fixed assets, and federal grants;
- verify that financial transactions were made in accordance with applicable laws, regulations, and policies including Minn. Stat. Section 136C.50, and other finance-related laws and regulations; and
- evaluate the recording and reporting of financial transactions on the statewide accounting system.

Management Responsibilities

The management of the State Council on Vocational Technical Education 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

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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.

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

The management of the State Council on Vocational Technical Education 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. The purpose of our testing of transactions was to obtain reasonable assurance that the Council had, in all material respects, administered its operations in compliance with applicable state 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 agency 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.

Conclusions

In our opinion, except for the issues raised in Section II, findings 2 and 3, the system of internal accounting control of the State Council on Vocational Technical Education in effect as of March 22, 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, except for the issues addressed in Section II, findings 1 through 4, for the period August 1, 1985 through June 30, 1987, the State Council on Vocational Technical Education administered its operations in compliance, in all material respects, with applicable finance-related laws and regulations and with Minn. Stat. Section 136C.50.


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In our opinion, except for the issues addressed in Section II, findings 1 and 2, for the period of August 1, 1985 through June 30, 1987, the State Council on Vocational Technical Education properly recorded, in all material respects, its financial transactions on the statewide accounting system.

Pursuant to Minn. Stat. Section 3.975, this report has been referred to the Attorney General. The Attorney General has the responsibility to ensure the recovery of state funds and in fulfilling that role may negotiate the propriety of individual claims (finding 1).

The recommendations included in this report are presented to assist the State Council on Vocational Technical Education 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.

We would like to thank the staff of the State Council on Vocational Technical Education for the cooperation extended to us during this audit.


James R. Nobles
Legislative Auditor


John Asmussen
Deputy Legislative Auditor

August 31, 1988

STATE COUNCIL ON VOCATIONAL TECHNICAL EDUCATION

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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
Marla Conroy	Auditor-in-Charge

EXIT CONFERENCE

The findings and recommendations in this report were discussed with the following staff of the State Council on Vocational Technical Education (Council) and the State Board of Vocational Technical Education (Board) on August 17, 1988:

John Mercer, Executive Director, Council
Melvin Johnson, Assistant State Director, Board
Ann Wood, Data Specialist, Board
Teri Naughton, Acting Fiscal Services Director, Board

STATE COUNCIL ON VOCATIONAL TECHNICAL EDUCATION

I. INTRODUCTION

The State Council on Vocational Technical Education (Council) was established in 1969 and designated as a state agency in 1985. Prior to becoming a state agency, the Council was an independent entity serviced by various school districts. The Council primarily advises the Governor and various other organizations on policies that the state should pursue to strengthen vocational technical education. The other organizations include the State Board of Vocational Technical Education, the State Board of Education, the Governor's Job Training Council, the business community, the general public, and the U.S. Secretaries of Education and Labor. The Council is comprised of thirteen members appointed by the governor, seven of whom represent the private sector interests of agriculture, business, industry and labor. Six of the members represent vocational technical education institutions, career guidance and counseling organizations, special education, and targeted populations. The Council has a three member staff, headed by the Executive Director, John W. Mercer.

The Council received federal grants from the U.S. Department of Education totalling \$116,350 and \$112,113 for fiscal years 1986 and 1987, respectively. The Council also received state appropriations of \$37,500 for each of these fiscal years. Although the Council is a separate state agency, Minn. Stat. Section 136C.50 appoints the State Board of Vocational Technical Education (State Board) as the Council's fiscal agent. Prior to July 1, 1987, the State Board contracted with the Department of Education to provide fiscal services to the State Board as well as the State Council. Currently the State Board, as the Council's fiscal agent, processes receipt and disbursement transactions through the Department of Finance's statewide accounting (SWA) system. The Council follows the state's operating procedures and guidelines in processing its financial transactions. In addition, the Council operates under the State Board of Vocational Technical Education's internal travel policies, special expense guidelines, and the plan for professional and technical services. Minn. Stat. Section 15.0575 provides that travel expenses for the Council members should be reimbursed under the Commissioner of Employee Relation's Employee Benefits Plan. The Council's staff compensation and other expenses are governed by the benefit plans for their respective bargaining units.

The Council incurred expenditures of \$159,367 for fiscal year 1987 in the following expense categories:

Personnel services	\$ 75,635
Administrative expenditures	48,088
Grants	17,344
Supplies and materials	9,421
Equipment	8,879

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II. CURRENT FINDINGS AND RECOMMENDATIONS

1. Council presidents received compensation which they may not have been entitled to under Minnesota Statutes.

Minn. Stat. Section 15.0575 states that members of boards shall be compensated at the rate of \$35 per day spent on board activities, when authorized by the board, plus expenses in the same manner and amount as authorized by the Commissioner of Employee Relations plan. Expenses include travel reimbursements for meals, mileage, and certain other travel related expenses. From August 1985 to June 1987, the Council presidents received \$125 per month for board activities in addition to travel expenses. Certain Council presidents may have been overpaid during this period since they received compensation of \$125 a month instead of the authorized \$35 per diem. During this time, the president was the only Council member receiving compensation for time spent on Council activities. Other Council members were not paid compensation for board activities during this period; however, they did receive travel related expenses.

The monthly compensation of \$125 for Council presidents was an established practice of the Council prior to becoming a state agency in 1985. The president's compensation was approved by the Council as part of the 1985-1986 budget under the professional and technical services expense category. When the Council approved the 1987-1988 budget they included, for the first time, funds for the Council president and members' per diems. Beginning in fiscal year 1988 the Council began reimbursing the president and members \$35 per day for attending Council, executive committee, and standing committee meetings. Although the council president and members may have attended other functions which would qualify for per diem reimbursement, the Council's practice has been to limit per diem payments to days spent attending these functions.

The Council reimbursed former president, Ms. Linda White, \$1,750 for the months of August 1985 to April 1986, and February 1987 to June 1987. In addition, Mr. Curtis Gniffke, who was president from May 1986 to January 1987, received \$1,125. The following schedule summarizes the amounts paid by the Council during fiscal years 1986 and 1987, and the amount that may have been overpaid. The summary shows the amounts that we determined each president would have been eligible for had the Council authorized \$35 per diems. The per diem amount is based on the president's attendance at Council meetings and executive council meetings as documented in the Council's minutes. The president's attendance at standing committee meetings was not documented by the Council; therefore, we did not give credit for these meetings. Additional documentation would need to be obtained to substantiate a proper per diem for standing committee meetings.

	<u>Monthly Compensation Paid</u>	<u>Eligible Per Diem</u>	<u>Potential Amount Overpaid</u>
L. WHITE	\$1,750	\$525	\$1,225
C. GNIFFKE	\$1,125	\$210	\$ 915

STATE COUNCIL ON VOCATIONAL TECHNICAL EDUCATION

We are referring the potential overpayments of \$1,225 for Ms. White and \$915 for Mr. Gniffke to the Attorney General's Office. The Attorney General has the responsibility to ensure the recovery of state funds and in fulfilling that role may negotiate the propriety of individual claims.

RECOMMENDATION

- The Council should work with the Attorney General's Office in determining the appropriate amount of compensation earned by the former Council presidents and pursue repayment of any ineligible amounts.
2. The Council administered financial activities in a private bank account that should have been processed through the State Treasury. In addition, certain expenses made were inappropriate.

The Council established a separate bank account on November 8, 1985. Originally, the account was intended to be a private fund for Council members and employees. The account was to be financed through Council member donations and used for gift and social expenditures for Council members and staff. However, the activities in this account were expanded to include transactions related to state business that should be accounted for in the State Treasury. The check book and related bank records for this account were maintained by the Executive Director. Prior to becoming a state agency the Council had a similar fund that was maintained by the Willmar school district. When the school district ceased being the Council's fiscal agent the funds remaining were transferred to the bank account.

A summary of the bank account's activity for the period November 8, 1985 to March 31, 1988 follows:

Balance November 8, 1985 (Transfer from Willmar)	\$ 314
Receipts:	
Conference registration fees	\$4,217
Gifts and contributions	450
Repayment of loans made to staff	300
Council newsletter	300
Council member donations	287
Other	70
Total Receipts	<u>\$5,938</u>
Expenditures:	
Conference expenses	\$3,436
Gifts and social activities for members and staff	1,203
Loans to staff	300
Report printing	300
Meals for visitors	149
Other	166
Total Expenditures	<u>\$5,553</u>
Balance as of March 31, 1988	<u>\$ 385</u>

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Review of the financial activities in this account disclosed certain problems. First, certain activities should have been processed through the State Treasury. Second, some of the receipts collected for state business were used for personal activities of Council members and staff.

On October 1-3, 1986, the Council hosted the Central States Regional Conference at a metropolitan area hotel. The registration fees collected were deposited into the bank account and used to pay for conference expenses, such as food and beverages. The profit from hosting the conference amounted to \$781 which was retained in the bank account. The Department of Finance's Operating Policy and Procedure 06:06:10 directs agencies to administer seminar receipts and expenditures from the Special Revenue Fund in the State Treasury. Minn. Stat. Section 136C.50, Subd. 4 provides that federal, state, or private money received by the Council must be deposited in the State Treasury and credited to a special account for the Council. The Council did not comply with the state's procedures since the conference receipts and disbursements were not processed through the State Treasury.

The Council publishes a newsletter three times a year. During 1987, the Council received \$900 from both the Minnesota Department of Education and the Minnesota Association of Area Vocational Technical Institutes. These funds were for the preparation and distribution of the newsletter. Generally these receipts were deposited into the State Treasury; however, one payment for \$300 was deposited into the bank account. The Council also publishes project reports. The expenditures for printing these reports are generally processed through the statewide accounting (SWA) system. However, one payment of \$300 was made from the bank account. These transactions should have been processed through the State Treasury.

Gifts and contributions of \$450 were received from private organizations. The Council received a \$250 gift from a private organization and a \$200 contribution for costs incurred by the Council when hosting a visiting foundation. The Department of Finance has established an Expendable Trust Fund where gifts should be recorded. This ensures that funds are properly classified for financial purposes and subjects any expenditures made to the controls of the state system. In addition, the Department of Finance Operating Policy and Procedure 06:06:07 states that for every gift valued at \$100 or more, the department must complete a gift acceptance form. Although the \$200 contribution was not processed through SWA, the funds were expended for their intended purpose. Documentation of the intended purpose and expenditure of the \$250 gift was not maintained; therefore, we were not able to determine the appropriate use of these funds.

We believe that certain expenses were inappropriately paid with the receipts earned from state functions. Since Council member and staff donations were insufficient to fund their gifts and social activities, conference profits and gift funds were inappropriately used to fund these activities. In addition, loans totaling \$300 were made to two Council

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staff. One loan for \$100 was made on November 14, 1986 and repaid on September 11, 1987. The second loan for \$200, made on August 6, 1987, was repaid on September 8, 1987. We believe that the practice of loaning funds to staff is improper.

During April 1988, the Executive Director closed the bank account since he agreed that these funds should be deposited in the State Treasury. The remaining balance of \$385 was delivered to the State Board of Vocational Technical Education office for safekeeping until deposit.

RECOMMENDATIONS

- The balance of \$385 should be deposited in the State Treasury and credited to the special account for the Council.
- The Council should deposit receipts related to state business in the State Treasury and process disbursements through SWA.
- Gift acceptance forms should be completed in accordance with Finance procedures. Gifts should be deposited in the State Treasury and used for their intended purpose.

3. Administrative controls over special expenses need improvement.

The Council spent \$6,100 for special expense related activities from September 1985 to June 1987. Most of these expenses were for appropriate activities as outlined in the state's special expense regulations. However, the Council did not obtain the required prior authorization for the \$6,100 in expenses from the Department of Employee Relations and Finance. Of this amount, the Council also paid \$600 for luncheon expenses for regularly scheduled meetings which are not allowable costs under the state's guidelines.

The Department of Employee Relations and Finance are authorized to approve special expenses for state agencies. An annual special expense plan or individual expenses may be submitted for prior authorization. The Council did not obtain the required prior authorization from Employee Relations and Finance for the \$6,100 of special expenses incurred. Instead, the Council submitted special expense documentation to the Department of Education and the Board of Vocational Technical Education, the Council's fiscal agents, for prior authorization. Documentation supporting about 70 percent of the special expenses paid from September 1985 to June 1987 was on file in the Council's office. However, we do not believe that the Department of Education or the Board of Vocational Technical Education have the authority to approve the Council's special expenses. Only the Department of Employee Relations and Finance have authority to authorize special expenses for state agencies. Therefore, the Council operated without the appropriate authorization for special expenses.

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The Council incurred luncheon expenses for regularly scheduled Council meetings which are not allowable special expenses. The Department of Employee Relations' special expense guidelines (Administrative Procedure 4.4) provides that the full cost of a meal may be paid when it is part of the structural agenda of a conference, workshop, seminar, or meeting. However, regular monthly luncheon meetings are not allowable expenses.

RECOMMENDATIONS

- The Council should develop a separate special expense plan or individual expense requests for the various functions. The plan or requests should be submitted to the Departments of Employee Relations and Finance for proper prior authorization.
- The Council should ensure that special expense activities are allowable under the state's special expense guidelines. Special expenses should not be incurred for meals related to regularly scheduled Council meetings.

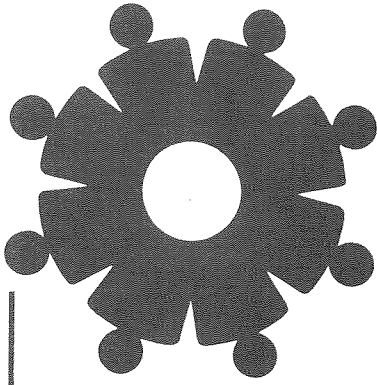
4. The Council has not developed a records retention schedule.

The Council has not prepared a records retention schedule in accordance with Minn. Stat. Section 138.17. The Department of Administration is responsible for the state's records retention program. Each state agency should retain government financial records in accordance with the time period specified in the general retention schedules prepared by the Departments of Administration, Finance, and Employee Relations. Most of the Council's records, including source documents supporting receipt, disbursement, and other accounting transactions, are covered under these general records retention schedules. However, records not controlled by the general retention schedules, such as Council minutes, special reports, and statistical records should be listed on an agency retention schedule and retained for a minimum of three complete fiscal years after the current processing year. Financial records, supporting documents, and all other records required to administer grants from federal agencies are to be retained for a period of three years in accordance with the U.S. Office of Management and Budget's Circular A-102. These documents should also be included on the agency's schedule.

Although the Council appears to have maintained their records, a records retention schedule is required to ensure that essential documents are retained for a reasonable period of time for both the agency's needs and for audit purposes.

RECOMMENDATION

- The Council should work with the Department of Administration in developing an appropriate records retention schedule.



State Council on Vocational Technical Education

STATE OF MINNESOTA

August 31, 1988

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

Dear Mr. Nobles:

The purpose of this letter is to respond to the findings of the audit report for the State Council on Vocational Technical Education for the period August 1, 1985 through June 30, 1987. The report contained four findings.

1. Finding: Council presidents received compensation which they may not have been entitled to under Minnesota Statutes.

Recommendation: The Council should work with the Attorney General's Office in determining the appropriate amount of compensation earned by the former Council presidents and pursue repayment of any ineligible amounts.

Response: The Council will work with the Attorney General's Office and the two former presidents to determine the appropriate amount of any repayment. John Mercer will work with the Attorney General's Office and the two former presidents, with a determination anticipated by June 30, 1989.

2. Finding: The Council administered financial activities in a private bank account that should have been processed through the State Treasury. In addition, certain expenses made were inappropriate.

Recommendation: The balance of \$385 should be deposited in the State Treasury and credited to the special account for the Council.

The Council should deposit receipts related to state business in the State Treasury and process disbursements through SWA.

Gift acceptance forms should be completed in accordance with Finance procedures. Gifts should be deposited in the State Treasury and used for their intended purpose.

Response: The Council accepts the recommendation that the balance of \$385 be deposited in the State Treasury and credited to the special account for the Council. Teri Naughton will credit \$385 to the special account for the Council by September 1, 1988.

With the closing of the checking account, the Council will (a) deposit all receipts related to state business in the State Treasury and process disbursements through SWA and (b) accept gifts using the gift acceptance forms in accordance with Finance procedures, as it has done with other gifts it has received. The Council uses gifts for their intended purpose. These procedures are currently in practice.

3. Finding: Administrative controls over special expenses need improvement.

Recommendation: The Council should develop a separate special expense plan or individual expense requests for the various functions. The plan or requests should be submitted to the Departments of Employee Relations and Finance for proper prior authorization.

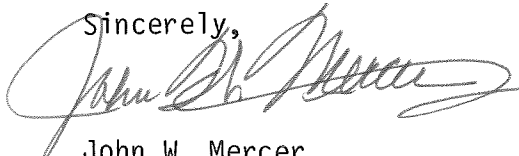
The Council should ensure that special expense activities are allowable under the state's special expense guidelines. Special expenses should not be incurred for meals related to regularly scheduled Council meetings.

Response: The Council has been making special expenses in compliance with the Employee Relations-Finance approved special expense plan used by the State Board of Vocational Technical Education. The Council will either develop a separate special expense plan or obtain approval from the Departments of Employee Relations and Finance to be included as part of the plan approved for the State Board of Vocational Technical Education. John Mercer and Karen Kedrowski will obtain approval by June 30, 1989. The Council will incur special expenses consistent with an approved plan.

4. Finding: The Council has not developed a records retention schedule.

Recommendation: The Council should work with the Department of Administration in developing an appropriate records retention schedule.

Response: The Council accepts the recommendation. John Mercer will work with the Department of Administration to develop an appropriate records retention schedule by June 30, 1989.

Sincerely,

John W. Mercer
Executive Director

JWM:mjs
cc: Melvin E. Johnson
Ann Wood
Teri Naughton
Karen Kedrowski
Charles T. Mottl