

**MINNESOTA MUNICIPAL BOARD
FINANCIAL AUDIT
FOR THE THREE YEARS ENDED JUNE 30, 1989**

MAY 1990

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

90-29

MINNESOTA MUNICIPAL BOARD
FINANCIAL AUDIT
FOR THE THREE YEARS ENDED JUNE 30, 1989

Public Release Date: May 10, 1990

No. 90-29

OBJECTIVES:

- EVALUATE INTERNAL CONTROL STRUCTURE: Filing fee receipts, payroll, board member per diem and meeting expenses, and administrative disbursements.

- TEST COMPLIANCE WITH CERTAIN FINANCE-RELATED LEGAL PROVISIONS.

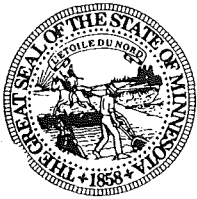
CONCLUSIONS:

We found the internal control structure to be effective.

We found that the board had complied with finance-related legal provisions.

We questioned the reasonableness of the board's practice of paying member per diems for administrative phone calls.

Contact the Financial Audit Division for additional information.
(612) 296-1730



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

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

JAMES R. NOBLES, LEGISLATIVE AUDITOR

Senator John E. Brandl, Chairman
Legislative Audit Commission

Members of the Legislative Audit Commission

John Carey, Chairman
Minnesota Municipal Board

Members of the Minnesota Municipal Board

Terrence Merritt, Executive Director
Minnesota Municipal Board

Audit Scope

We have conducted a financial related audit of the Minnesota Municipal Board as of and for the three years ended June 30, 1989. Our audit was limited to only that portion of the State of Minnesota financial activities attributable to the transactions of Minnesota Municipal Board, as discussed in the Introduction. We have also made a study and evaluation of the internal control structure of the Minnesota Municipal Board in effect in February 1990.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial activities attributable to the transactions of the Minnesota Municipal Board are free of material misstatements.

As part of our study and evaluation of the internal control structure, we performed tests of the Minnesota Municipal Board's compliance with certain provisions of laws, regulations, contracts, and grants. However, our objective was not to provide an opinion on overall compliance with such provisions.

Management Responsibilities

The management of the Minnesota Municipal Board is responsible for establishing and maintaining an internal control structure. This responsibility includes compliance with applicable laws, regulations, contracts, and grants. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that:

- assets are safeguarded against loss from unauthorized use or disposition;

Senator John E. Brandl, Chairman
Members of the Legislative Audit Commission
John Carey, Chairman
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- transactions are executed in accordance with applicable legal and regulatory provisions, as well as management's authorization; and
- transactions are recorded properly on the statewide accounting system in accordance with Department of Finance policies and procedures.

Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

Internal Control Structure

For purposes of this report, we have classified the significant internal control structure policies and procedures in the following categories:

- filing fee receipts,
- payroll,
- board member per diem and meeting expenses, and
- administrative disbursements.

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

Conclusions

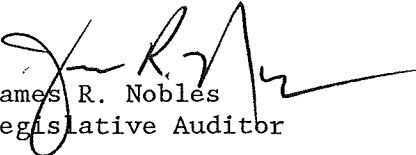
In our opinion, the internal control structure of the Minnesota Municipal Board in effect in February 1990, taken as a whole, was sufficient to meet the objectives stated above insofar as those objectives pertain to the prevention, detection, errors, or irregularities in amounts that would be material in relation to the financial activities attributable to transactions of the Minnesota Municipal Board.

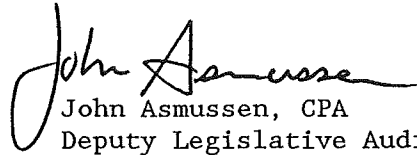
The results of our tests indicate that, with respect to the items tested, the Minnesota Municipal Board complied, in all material respects, with the provisions referred to in the audit scope paragraphs. With respect to items not tested, nothing came to our attention that caused us to believe that the Minnesota Municipal Board had not complied, in all material respects, with those provisions.

The issue presented in Section II represents our concern with the reasonableness of the Minnesota Municipal Board's practice of paying member per diems for administrative phone calls.

Senator John E. Brandl, Chairman
Members of the Legislative Audit Commission
John Carey, Chairman
Members of the Minnesota Municipal Board
Terrence Merritt, Executive Director
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This report is intended for the information of the Legislative Audit Commission and management of the Minnesota Municipal Board. This restriction is not intended to limit the distribution of this report, which was released as a public document on May 10, 1990.


James R. Nobles
Legislative Auditor


John Asmussen, CPA
Deputy Legislative Auditor

END OF FIELDWORK: March 16, 1990

REPORT SIGNED ON: April 30, 1990

MINNESOTA MUNICIPAL BOARD

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AUDIT PARTICIPATION

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

John Asmussen, CPA	Deputy Legislative Auditor
Claudia Gudvangen, CPA	Audit Manager
Steve Pyan, CPA	Auditor-in-Charge

EXIT CONFERENCE

The finding and recommendation in this report was discussed with the following staff of the Minnesota Municipal Board on April 26, 1990:

Terrence Merritt	Executive Director
Patricia Lundy	Assistant Executive Director

MINNESOTA MUNICIPAL BOARD

I. INTRODUCTION

The Minnesota Municipal Board operates pursuant to Minn. Stat. Section 414.01. The board conducts proceedings and issues orders for the creation of a municipality, the combination of two or more governmental units, or the alteration of a municipal boundary. The board has three members appointed by the governor for six year terms. For certain proceedings, two county commissioners from the county with most of the affected land also serve as board members. The board appoints an executive director who must be learned in the law. Terrence Merritt has served as executive director since January 2, 1979.

The board receives a General Fund appropriation to fund its activities. Expenditures for the year ended June 30, 1989 were as follows:

Personal Services	\$146,106
Board Member Per Diem	11,800
Rents and Leases	13,791
Travel	8,879
Professional/Technical Services	5,343
Capital Equipment	4,743
Communications	4,060
Other	<u>6,442</u>
Total	<u>\$201,164</u>

Source: *Managers Financial Report as of September 2, 1989.*

The Board collects filing fees, depositing them in the General Fund as nondedicated receipts. Collections for fiscal year 1989 totalled \$27,100.

MINNESOTA MUNICIPAL BOARD

II. CURRENT FINDING AND RECOMMENDATION

1. Certain board member per diem payments are inappropriate.

The Minnesota Municipal Board makes per diem payments to board members for activities beyond attendance at board meetings or hearings. Board members may receive per diem for administrative phone calls with staff members, primarily the executive director and assistant executive director. An administrative phone call may include discussion of one or more of the following: (1) active files or cases, (2) requests for continuance, (3) scheduling concerns, (4) staff personnel matters, or (5) agency budget or related legislative developments.

When staff determine a phone call was extensive or comprehensive enough to merit payment, it is noted on a monthly meeting ledger. These administrative calls are included when the staff completes the board members per diem payment requests. On average, two or three extra per diems related to administrative phone calls are paid each month.

Minn. Stat. Section 414.01 Subd. 6a states in part: "Each member of the municipal board shall receive \$50 per day when in attendance at board meetings or hearings, or when otherwise engaged in the performance of duties". The board and staff consider these administrative calls to be instances when members are performing duties.

In addition, board members frequently receive per diem for conference calls which replace a formal gathering of the board. The intent is to process or deliberate board business in a cost effective manner, since members live in various parts of the state. The board's governing statutes specifically include deliberation by electronic media under the definition of meetings or hearings. We recognize that in some circumstances it may be cost effective to hold board meetings by conference call rather than paying expenses for members to travel to a specific location. However, the board must use good judgment in determining the number of necessary calls and the subject matters covered.

We believe the extra per diem payments for administrative phone calls are inappropriate. The board's application of the statutory provision goes beyond the general practice of other state boards or commissions. The common expectation in state government is that service on a board or commission often requires a personal time commitment beyond attendance at formal meetings. This may include review of materials in preparation for a meeting or discussions with agency staff about specific agenda items or other agency business. However, preparatory activities normally do not qualify for another per diem in addition to the hearing or meeting.

RECOMMENDATION

- The Municipal Board should stop the practice of paying board members per diems for administrative phone calls. The board should establish a formal policy defining activities eligible for per diem payment.



STATE OF MINNESOTA
MUNICIPAL BOARD

165 Metro Square Building
121 East Seventh Place
St. Paul, Minnesota 55101-2142

April 26, 1990

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

Dear Mr. Nobles:

The following is in response to the recommendation contained in your draft report.

Minnesota Statutes 414.01 Subdivision 6a, reads in part: "Each member of the Municipal Board shall receive \$50.00 per day when in attendance at board meetings or hearings, **or when otherwise engaged in the performance of duties.**" Prior to the 1969 inclusion of the above-emphasized language, per diems were authorized only when in attendance at commission meetings or hearings.

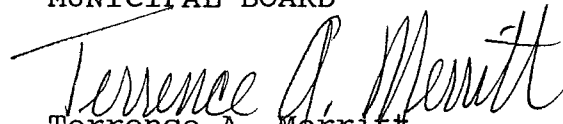
As you are aware, the Board is a quasi-judicial agency which distinguishes it from other agencies which function in a more regulatory manner and therefore meet more infrequently. Members are not paid for each office call, the usual preparatory work for an upcoming meeting or hearing or the extensive travel time necessary to be present at the county where the hearing must take place or to the office for meetings. Telephone meetings with individual Board members deal with matters of policy and urgency. The Board members are also assigned specific policy areas of responsibility to limit the need for full Board involvement outside of general meetings. These meetings generally result in a cost savings to the agency. Matters that are dealt with by a single board member by phone, result in saving costs of travel and the need for additional per diems to other board members. The Board presently has a general policy for per diem eligibility which has remained constant since 1969, however the policy will be reviewed for more definition.

James R. Nobles
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April 26, 1990

We thank Claudia Gudvangen, Auditor Manager, Steven Pyan, Auditor-in-Charge, and John Asmussen, Deputy Legislative Auditor for their courteous and professional Manner throughout the audit.

Sincerely,

MUNICIPAL BOARD


Terrence A. Merritt
Executive Director

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