

COUNCIL ON AFFAIRS OF SPANISH-SPEAKING PEOPLE
FINANCIAL AUDIT
FOR THE FOUR YEARS ENDED JUNE 30, 1990

DECEMBER 1990

Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

90-73

SPANISH SPEAKING AFFAIRS COUNCIL

FINANCIAL AUDIT JULY 1, 1986 - JUNE 30, 1990

Public Release Date: December 21, 1990

No. 90-73

OBJECTIVES:

- EVALUATE INTERNAL CONTROL STRUCTURE: Payroll, administrative disbursements, and receipts.
- TEST COMPLIANCE WITH CERTAIN FINANCE-RELATED LEGAL PROVISIONS.

CONCLUSIONS:

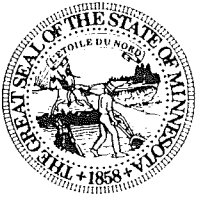
We found five areas where the internal control structure needed improvement:

- The council has not properly administered the AIDS partnership grant.
- The council handled the consultant contract relating to the AIDS grant inappropriately.
- The council does not follow proper gift and grant procedures.
- The council is subletting office space without proper authorization.
- Controls over the council's receipts need improvement.

We reported on two areas where the council had not complied with finance-related legal provisions.

- The council incurred a liability to its consultant before initiating a fully authorized contract and encumbering funds.
- The council did not deposit receipts daily as required by statute.

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



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

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JAMES R. NOBLES, LEGISLATIVE AUDITOR

Senator John E. Brandl, Chairman
Legislative Audit Commission

Members of the Legislative Audit Commission

Linda Lares, Chair
Council on Affairs of Spanish-Speaking People

Members of the Council on Affairs of Spanish-Speaking People

Mr. Eduardo Wolle, Executive Director
Council on Affairs of Spanish-Speaking People

Audit Scope

We have conducted a financial related audit of the Council on Affairs of Spanish-Speaking People as of and for the four years ended June 30, 1990. Our audit was limited to only that portion of the State of Minnesota financial activities attributable to the transactions of the council, as discussed in the Introduction. We have also made a study and evaluation of the internal control structure of the council in effect during May 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 council are free of material misstatements.

As part of our study and evaluation of the internal control structure, we performed tests of the council'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 council 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 structures policies and procedures.

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Page 2

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;
- 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:

- payroll,
- administrative disbursements, and
- receipts.

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

Our study and evaluation disclosed the conditions discussed in findings 1 to 5 involving the internal control structure of the Council on Affairs of Spanish Speaking People. We consider these conditions to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data.

A material weakness is a reportable condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial activities

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Page 3

being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We believe the reportable conditions described in finding 1 is a material weakness.


We also noted certain other matters involving the internal control structure and its operation that we reported to the management of the council at the exit conference held on November 27, 1990.

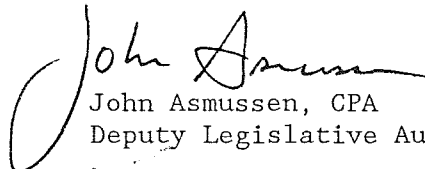
The results of our tests indicate the following instance of noncompliance with the provisions referred to in the audit scope. Minn. Stat. Section 3.9223 Subd. 7 requires the council to "prepare and distribute a report to the governor and legislature by November 15 of each even-numbered year. The report shall summarize the activities of the council since its last report, list receipts and expenditures, identify the major problems and issues confronting Spanish-speaking people, and list the specific objectives which the council seeks to attain during the next biennium." Although the council has informally reported on its activities during legislative hearings and meetings, the council has not specifically prepared and distributed the required report.

Except for the issues in findings 2 and 5, with respect to the items tested, the council complied, in all material respects, with the provisions referred to in the audit scope paragraphs. With respect to items not tested, except for the issue discussed in the preceding paragraph, nothing came to our attention that caused us to believe that the council had not complied, in all material respects, with those provisions.

This report is intended for the information of the Legislative Audit Commission and management of the Council on Affairs of Spanish-Speaking People. This restriction is not intended to limit the distribution of this report, which was released as a public document on December 21, 1990.

We would like to thank the council staff for their cooperation during this audit.


James R. Nobles
Legislative Auditor


John Asmussen, CPA
Deputy Legislative Auditor

END OF FIELDWORK: August 14, 1990

REPORT SIGNED ON: December 17, 1990

COUNCIL ON AFFAIRS OF SPANISH-SPEAKING PEOPLE

TABLE OF CONTENTS

	<u>Page</u>
I. INTRODUCTION	1
II. CURRENT FINDINGS AND RECOMMENDATIONS	2
AGENCY RESPONSE	9

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
Marla Conroy, CPA	Auditor-In-Charge

EXIT CONFERENCE

The findings and recommendations in this report were discussed with the following officials of the council at the exit conference held on November 27, 1990:

Eduardo Wollle	Executive Director
Raul DeAnda	Research Analyst
Rubi Lee	Communications Specialist
Eloisa Lee	Clerk Typist II
John Pacheco	Aids Project Consultant
Larry Dowdle	Accounting Coordinator, Department of Administration

COUNCIL ON AFFAIRS OF SPANISH-SPEAKING PEOPLE

I. INTRODUCTION

The Council on Affairs of Spanish-Speaking People was established under the authority of Minn. Stat. Section 3.9223. The council does not provide direct services to individuals, but serves as an initiator and organizer. It provides accessibility of services to and from Hispanics in the community. It also encourages involvement of Hispanics in the policy-making process of the state of Minnesota. The council consists of seven members, appointed by the governor. The council employs three full-time staff. Jose Trejo served as executive director until January 1990. Raul DeAnda served as interim director from January to September 1990.

Pursuant to statute, the Department of Administration provides the council with administrative services. These services include the entering of payroll, receipt, and disbursement transactions into the state's accounting systems. The following is a summary of the council's financial activities for the four fiscal years ended June 30, 1990:

	<u>1990</u>	<u>1989</u>	<u>1988</u>	<u>1987</u>
Revenues	<u>\$175,724</u>	<u>\$ 51,377</u>	<u>\$ 35,616</u>	<u>\$ 26,578</u>
Expenditures:				
Payroll Costs	151,503	137,106	113,705	117,456
Administrative Expenditures:				
Rents and Leases	11,544	11,614	12,368	11,698
Professional/Technical	57,430	18,479	13,789	1,810
Capital Equipment	8,559	9,111	9,222	5,471
Grant Payments	45,500	22,500	-0-	-0-
Other Expenditures	<u>52,701</u>	<u>35,526</u>	<u>27,680</u>	<u>22,321</u>
Total Expenditures	<u>\$327,237</u>	<u>\$234,336</u>	<u>\$176,764</u>	<u>\$158,756</u>

Source: Statewide Accounting System Estimated/Actual Receipts Reports, and Managers Financial Reports as of the September closing of each fiscal year.

COUNCIL ON AFFAIRS OF SPANISH-SPEAKING PEOPLE

II. CURRENT FINDINGS AND RECOMMENDATIONS

1. The council has not properly administered the AIDS Partnership grant.

The council has not adequately administered the AIDS Partnership grant in several areas. The council inappropriately assigned the administration of the grant entirely to a paid consultant. In addition, the council did not account for all grant funds properly.

The council became involved in the AIDS project in 1989 through an inter-agency agreement with the Minnesota Department of Health. In the agreement, the Department of Health provided the council with funding to coordinate AIDS prevention and risk reduction education for Hispanic residents. The agreement awarded \$115,000 for the period December 15, 1988 to December 31, 1989. In order to carry out the terms of the contract, the council subcontracted with six Hispanic community-based agencies to provide prevention and risk reduction programs. Each sub-recipient received \$15,000, with the council spending the remaining \$25,000. The Department of Health later extended the agreement to provide an additional \$115,000 for 1990.

The council has not provided effective control over the project in several respects, including the following:

- The council did not adequately oversee the operation of the project. The council delegated the entire operation of the AIDS project to a consultant. The consultant was primarily responsible for monitoring the project and providing technical assistance to the project's six subrecipients. The consultant was responsible for monitoring budgets and reviewing subrecipient reimbursement requests. We question the employer-employee relationship that the council developed with the consultant. Pursuant to Minn. Stat. Section 16B.17 Subd. 2, a contract should not establish an employment relationship between the agency and persons performing the contract. Finding 2 discusses additional problems we found relating to the consultant contract.
- The council did not maintain adequate records supporting AIDS project payments. The consultant moved all reimbursement files to his office in his home about April 1990. When we obtained the files for review, we found that they were incomplete. They did not include copies of all subrecipient reimbursement requests and other necessary documentation.
- The council reimbursed a subgrantee inappropriately. The council paid a subrecipient \$15,000 when actual, documented expenditures totalled only \$14,780. Unless the subrecipient can prove additional expenditures, the council overpaid the subrecipient a total of \$220.

COUNCIL ON AFFAIRS OF SPANISH-SPEAKING PEOPLE

- The council did not ensure that all subrecipients followed the appropriate federal laws and regulations relating to the AIDS grant. The grant consists of a combination of state and federal funds. The federal funding is provided under Catalog of Federal Domestic Assistance (CFDA) 13.118. Because federal funds are included, the subrecipients must comply with federal requirements in such areas as cost principles and audits. However, the contracts with the subgrantees did not refer to the applicable federal legal requirements.
- The council failed to submit timely quarterly reports and monthly invoices to the Department of Health. The interagency agreement provides for quarterly progress reports to summarize the program performance. Also, the agreement requires the council to submit one detailed invoice per month that includes the expenses of each subrecipient and the council. The council has continually submitted late reports and invoices. For example, the council submitted the first quarterly report covering the period January through March 1990 in conjunction with the second quarterly report. The Department of Health received both reports in July 1990. In addition, the subrecipients received only three payments during the 1989 grant period. The subrecipients did not receive their final 1989 payments until March 1990.

RECOMMENDATIONS

- The council should adequately monitor the AIDS project, including determining the appropriateness of allowing a consultant to administer the project.
- The council should maintain adequate records to support AIDS grant disbursements.
- The council should recapture the \$220 overpayment from the subrecipient, if the subrecipient cannot prove additional expenditure documentation.
- The council should work with the Departments of Health and Finance to determine the federal requirements associated with the AIDS grant. The council should specify all requirements in the subrecipient grant agreements.
- The council should deposit the AIDS grant in a federal account.
- The council should complete quarterly reports and monthly invoices in a timely manner.

COUNCIL ON AFFAIRS OF SPANISH-SPEAKING PEOPLE

2. The council handled the consultant contract relating to the AIDS grant inappropriately.

The council hired a consultant to administer the day to day operations of the AIDS project discussed in finding 1. The council handled the consultant contract inappropriately in several respects, including the following:

- The consultant's contracts were not fully authorized until well into the contract period. The effective dates of the consultant's first contract were January 3, 1989 to July 7, 1989. The contract was later extended to December 31, 1989. Although the commissioner of Finance did not authorize the contact until February 13, 1989, the consultant began working as of January 3, 1989. For this contract, the Department of Finance authorized the council to pay the consultant retroactively. The council executed a subsequent contract for the period January 2, 1990 to June 30, 1990. The commissioner of Finance did not authorize this contract until June 13, 1990. We saw no evidence that Finance approved the retroactive payment on this contract. Pursuant to Minn. Stat. Section 16A.15, it is illegal for an agency to incur an obligation until the Department of Finance has certified that a sufficient unencumbered balance in the account exists.
- The consultant is still responsible for the program, even though his contract expired June 30, 1990. Although the consultant no longer has a legal relationship with the council, as of November 1990, he is administering the grant.
- The consultant received reimbursement for travel disbursements which were not supported and did not comply with the limits established by the Commissioner's Plan. The council reimbursed the consultant \$1,000 for travel expenses. We question \$510 of the travel reimbursement paid to the consultant. The consultant contract provided for the reimbursement of travel and subsistence expenses pursuant to the Commissioner's Plan. However, the consultant provided documentation for travel expenses totalling only \$565. The consultant did not provide documentation for the remaining \$435. Documentation we reviewed indicated that the consultant exceeded the meal reimbursement limits established by the Commissioner's Plan by a total of \$75. Also, the documentation showed that the consultant included meals for guests in the reimbursement claims. The Commissioner's Plan does not allow for reimbursement of guest meals.

RECOMMENDATIONS

- The council should discontinue the practice of incurring obligations prior to initiating a fully authorized contract and encumbering funds.

COUNCIL ON AFFAIRS OF SPANISH-SPEAKING PEOPLE

RECOMMENDATIONS (Continued)

- The council should seek reimbursement for any travel expenses which are not properly supported or exceeded the limits set forth in the Commissioner's Plan.

3. The council does not follow proper gift and grant procedures.

The council is not ensuring that all private gifts and grants it receives are being used appropriately. First, the council has not complied with some gift and grant provisions. For example, some grant agreements require the council to submit reports to the grantor at the end of the project. The reports generally require a narrative and financial accounting on the use of funds. In a sample of 22 grants we tested, 9 grants totalling \$44,500 had required reports to the grantor. The council could not provide copies of any of these reports.

Next, the council did not obtain grantor approval when spending proceeds on purposes not specifically cited in the grant agreements. For example, the council used \$2,734 of a \$3,000 grant to pay for unemployment benefits. The grant was intended for the Minnesota Hispanic Leadership Program. Although the grant agreement allowed for administrative costs, we question the council's use of 91% of the grant for unemployment benefits. In another case, the council used \$2,515 of a \$3,000 Minnesota Hispanic Leadership Program grant to purchase computer equipment. Based on the documentation available, it is not clear whether the grantor authorized or intended the council to use the grant in this manner.

Finally, the council does not prepare gift acceptance forms for incoming gifts. Some gifts do not include written instructions for the terms and conditions associated with the funds, including restrictions on their use. Gift acceptance forms are necessary to limit the council's liability to the grantors and to ensure that both the grantor and the council agree on the use of the funds.

RECOMMENDATIONS

- The council should submit reports to grantors when required.
- The council should seek approval from grantors whenever grant funds are to be used for purposes not specifically cited in the grant agreement.
- The council should complete gift acceptance forms whenever appropriate.

COUNCIL ON AFFAIRS OF SPANISH-SPEAKING PEOPLE

4. The council is subletting office space without proper authorization.

The council is receiving reimbursement for office space and supplies from an outside organization without proper authorization. In addition, the council is depositing these funds into the gift account.

The council rents its office space from the state through a contract with the Department of Administration's Real Estate Management Division. In turn, the council is subletting a portion of its space to an consultant under contract with the Midwest Hispanic AIDS Coalition. The council has no formal agreement with the Coalition concerning this arrangement. The council bills the Coalition for office rent and miscellaneous office supplies. The council received \$801 for the period February 1990 to May 1990. The council also billed the Coalition \$200 for June 1990. The council deposits the incoming receipts into its gift account. We question the appropriateness of the council entering into this arrangement without consulting Real Estate Management. In addition, we do not believe it is appropriate for the council to deposit these rent reimbursements into its gift account.

RECOMMENDATIONS

- The council should contact Real Estate Management to determine whether it is allowed to sublet its office space. If allowed, the council should negotiate a written agreement with the Coalition, formalizing the reimbursement of office space and supplies.
- The council should deposit any rent proceeds in the General Fund.

5. Controls over the council's receipts need improvement.

The council does not have proper controls over receipts in three areas. First, a lack of adequate separation of duties exists over receipts. No one independently verifies that the council is depositing all checks received. The clerk receives the checks and records them in a check log. The same individual submits the checks to the Department of Administration's fiscal services for deposit. In addition, this individual receives a copy of the deposit slip and records the information in the check log. An independent person should verify the deposit slip or statewide accounting (SWA) receipt reports to the check log. This procedure ensures all receipts were properly recorded and deposited.

In addition, the council does not endorse the checks immediately upon receipt. Rather, the clerk submits the checks to fiscal services where they are restrictively endorsed. The council should endorse all checks immediately to reduce the risk of loss or theft.

COUNCIL ON AFFAIRS OF SPANISH-SPEAKING PEOPLE

Finally, the council is not complying with Minn. Stat. Section 16A.275 regarding the timely deposit of receipts. The statute requires the daily depositing of receipts exceeding \$250. Our testing indicated 15 instances where receipts were not deposited timely. Two of these instances occurred during May and June 1990.

RECOMMENDATIONS

- The council should ensure an independent verification of the deposit slip or SWA receipt reports to the check log.
- The council should restrictively endorse checks immediately upon receipt.
- The council should deposit receipts daily whenever they exceed \$250 in accordance with Minn. Stat. Section 16A.275.



SPANISH SPEAKING AFFAIRS COUNCIL

506 RICE STREET, ST. PAUL, MN 55103

296-9587

December 14, 1990

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

Dear Mr. Noble,

The Spanish Speaking Affairs Council wishes to respond to the legislative audit recently conducted by your office regarding the Council's financial affairs.

The audit was conducted at a time when this office was in the process of transition between Directors. I began my tenure as Director of the Council three months ago.

It is my intention to resolve some of the issues addressed in the audit. One such issue is the administration of the AIDS Partnership project. As of January 1, 1991 the Council will no longer have fiscal responsibility for this project. A fiscal agent in the community has been identified to administer the funds and the project.

Since I am new to this position, I relied on the advice of the former Director and the AIDS Partnership project consultant in the preparation of this response to the audit report. The following comments are in response to the audit report findings.

1. The Council has not properly administered the AIDS Partnership grant.

Initially, the administration of the grant was conducted by the Executive Director of the Council. The consultant was hired to coordinate the project and report to the Director. The Director in turn served as liaison between the project and the Minnesota Department of Health. As the project progressed and as a result of the Director's resignation, the consultant became more actively involved in the administration of the project.

It must be kept in mind that the Council's involvement in this project was initiated at the request of the participating non-profit community based Hispanic agencies (7 Hispanic agencies

Audit 2

participate in the Partnership). This is the first time in the Hispanic community that community based agencies have entered into a formal cooperative agreement within themselves and a public agency. Therefore, since this was a new area of cooperation, the Council and the agencies proceeded to develop a cooperative effort, which had not been attempted before and in which the areas of responsibility were not clearly defined. The Partnership has been studied at the national level as a model for possible replication in other communities.

In developing the Partnership, the Council worked very closely with the Fiscal Services Division of the Department of Administration to establish these contracts. Since the Council does not have an internal accountant, it followed the directions and the recommendations of the Fiscal Services Division (FSD). The contracts were reviewed by FSD and the Minnesota Department of Health. During these reviews, no mention was made of the Catalog of Federal Domestic Assistance (CDFA) 13.118 and the regulations contained in the Catalog. Had this requirement been brought to the Council's attention, the contracts with subgrantees would have referred to those regulations.

The Council has very limited staff and therefore it must rely on other state agencies to be sure that it follows proper procedures. If these agencies fail to inform the Council of these procedures, then the Council is unable to comply.

The Council did indeed not maintain adequate AIDS project payment records. This was due to requests to Partnership agencies for information which was not always provided by Partnership members. The consultant reviewed existing statements and an additional request for information was made to agencies. All records from the AIDS Project are now within the Council's possession.

The Council did mistakenly overpay a subgrantee by \$220. We have a commitment from the subgrantee for reimbursement.

The Council experienced difficulty in providing timely reports and invoices to the Minnesota Department of Health. Coordinating a partnership of 7 organizations proved especially difficult and trying when it came to requesting and receiving information. This made reporting and reimbursements on a timely basis a "mission impossible" situation.

2. The Council handled the consultant contract relating to the AIDS grant inappropriately.

The Council will discontinue the practice of incurring obligations prior to initiating a fully authorized contract and encumbering funds. That is already being done.

The Council will seek reimbursement for any travel expenses which are not properly supported or exceeded the limits set forth in the Commissioner's Plan (which the consultant had not seen).

3. The Council does not follow proper gift and grant procedures.

The payment of unemployment benefits as handled by the Council was at the recommendation and the request of the Department of Administration's Fiscal Services Division. Grant allocations were pooled in order to meet the administrative costs of the Leadership Program. While 91% of the \$3,000 grant cited in the audit was used for administrative purposes, there were other grants where administrative costs were allowed. However, the funds were utilized primarily for program costs. There was no single grant that provided the entire administrative costs associated with the Program. Therefore, in order to carry out the Program effectively, it was necessary to pool some of these funds.

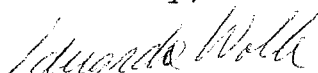
The Council utilized state funds to pay for a portion of the administrative and program costs associated with the Hispanic Leadership Program. The amount of this payment was higher than the amount used to pay for the computer, which was to be used specifically for the Leadership Program. Therefore, even though the funds for the computer came from the grant, the Council reimbursed the grant by paying for some of the administrative and program costs.

The Hispanic Leadership Program was funded through a series of grants, none of which covered the entire Program costs. Therefore, in order to carry out the Program's intent, it became necessary to utilize these funds in the best way possible. The fund transfers were made with the assistance of the Department of Administration's Fiscal Services Division.

The former Council's Director is certain he completed gift acceptance forms. The forms may have been misplaced during the transition period when files were transferred to the Historical Society and when the former Director removed his personal files.

The Council does not dispute the other findings and recommendations in the auditor's report. We will make every effort to correct the Council's future transactions.

Sincerely,



Eduardo Wolle
Executive Director