MINNESOTA CENTER FOR ARTS EDUCATION

FINANCIAL AUDIT

FOR THE THREE YEARS ENDED JUNE 30, 1990

DECEMBER 1990

Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

90-74

Veterans Service Building, Saint Paul, Minnesota 55155 • 612/296-4708

MINNESOTA CENTER FOR ARTS EDUCATION

FINANCIAL AUDIT
JULY 1, 1987 - JUNE 30, 1990

Public Release Date: December 27, 1990 No. 90-74

OBJECTIVES:

- EVALUATE INTERNAL CONTROL STRUCTURE: Grants to local organizations, food service contracts, professional and technical services contracts, fixed assets, payroll, administrative disbursements and receipts.
- TEST COMPLIANCE WITH CERTAIN FINANCE-RELATED LEGAL PROVISIONS.

CONCLUSIONS:

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

- The center must strengthen controls over its grants to local organizations.
- Controls over the Minnesota Vikings Food Service contract are inadequate.
- The center needs to strengthen controls over professional and technical services contracts.
- Fixed assets inventory controls need improvement.
- Center controls over disbursements are inadequate.
- Payroll duties are inadequately segregated and controls over overtime payments need strengthening.
- Center receipt controls are inadequate.

We reported on one other area where the council had not complied with finance-related legal provisions.

- Employee meal reimbursements did not comply with special expense plan guidelines.

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

Mr. James Undercofler, Executive Director
Minnesota Center for Arts Education

Mr. Harry Sieben, Jr., Chairman
Minnesota Center for Arts Education

Audit Scope

We have conducted a financial related audit of the Minnesota Center for Arts Education as of and for the three 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 Minnesota Center for Arts Education as discussed in the Introduction. We have also made a study and evaluation of the internal control structure of the Minnesota Center for Arts Education in effect at June 30, 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 Center for Arts Education are free of material misstatements.

As part of our study and evaluation of the internal control structure, we performed tests of the Minnesota Center for Arts Education'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 Center for Arts Education 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;

- 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:

- grants to local organizations,
- food service contracts,
- contracts for professional and technical services,
- fixed assets inventory,
- cash disbursements,
- personal services, and
- cash 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 1-6 and 8, involving the internal control structure of the Minnesota Center for Arts Education. 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 being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. The reportable conditions described in findings 1 and 2 are material weaknesses.

We also noted additional matters involving the internal control structure and its operation that we reported to the management of the Minnesota Center for Arts Education in findings at the exit conference held on June 28, 1990.

The results of our tests indicate that, except for the issues discussed in findings 1-3 and 7, with respect to the items tested, the Minnesota Center for Arts Education 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 Center for Arts Education 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 Minnesota Center for Arts Education. This restriction is not intended to limit the distribution of this report, which was released as a public document on December 27, 1990.

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

James R. Nobles
Legislative Auditor

John Asmussen, CPA
Deputy Legislative Auditor

END OF FIELDWORK: October 15, 1990

REPORT SIGNED ON: December 21, 1990

MINNESOTA CENTER FOR ARTS 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
Jean Mellett, CPA	Auditor-in-Charge
Karen Klein	Staff Auditor

EXIT CONFERENCE

The findings and recommendations in this report were discussed with the following staff of the Minnesota Center for Arts Education on June 28, 1990:

James Undercofler	Executive Director
Barbara Martin	Deputy Director

MINNESOTA CENTER FOR ARTS EDUCATION

I. INTRODUCTION

The 1985 Legislature created the Minnesota Center for Arts Education (center) to meet the needs of Minnesota students interested in the creative and interpretive arts. A board of directors, representing the eight congressional districts of the state, oversees the operation of a high school for artistically talented students and the operation of a resource center for improving arts education throughout Minnesota. The high school offers programs in media arts, visual arts, dance, theater and music, in addition to an academic program. The Center for Arts Education admits students on an equal basis from each congressional district. A resource center advisory council advises the board on matters affecting resource center programs and operations. The resource center provides continuing education for educators and artists, as well as arts programs and workshops for students. The Executive Director of the Minnesota Center for Arts Education is James F. Undercofler.

The center, located on the site of the former Golden Valley Lutheran College, received appropriations of $2,206,200, $2,649,500, and $5,800,000 in fiscal years 1988, 1989, and 1990, respectively, for its operations. During fiscal year 1990, the center leased its office, classroom and dormitory space. The 1990 Legislature appropriated $4,500,000 to buy the center site. The center completed the sale on July 21, 1990.

The Minnesota Center for Arts Education incurred the following expenditures in fiscal years 1990, 1989, and 1988, respectively.

	1990	1989	1988
Personal Services	$1,636,255	$ 700,541	$ 511,912
Expenses/Contracts	1,466,421	1,210,443	621,994
Supplies	531,308	14,892	14,430
Fixed Assets	357,057	46,432	11,916
Grants	1,250,169	1,024,219	594,144
Other Expenses	230,131	99,259	75,204
Total	$5,471,431	$3,095,786	$1,829,600

Source: Manager's Financial Report as of the September close of the statewide accounting system for each of the years.

II. CURRENT FINDINGS AND RECOMMENDATIONS

1. The center must strengthen controls over its grants to local organizations.

The center must improve controls over both authorizing and monitoring grants to local organizations. The executive committee of the board of directors does not maintain adequate documentation to support its authorization process. Also, the center does not ensure that grant recipients adhere to the grant provisions and guidelines. In fiscal year 1990, the center granted over $1.2 million to local educational and arts organizations.

First, we believe that the executive committee of the board must improve its documentation of grants authorized. The committee must keep formal minutes and supporting documentation to provide evidence of the grants authorized. The board delegated its grant approval authority to the executive committee, which is comprised of four of the fifteen board members and the Executive Director and Deputy Director of the center. Initially, center staff list grant applications received from local organizations and amounts requested. Staff forward the list and supporting applications to the advisory council for review and recommendation to the executive committee. The council transmits a final list of recommended grant recipients and amounts to the executive committee. The executive committee finalizes the awards to be made to grant recipients; however, the committee does not keep formal minutes to document the final grants authorized. Formal minutes including documentation of the final amounts authorized and related grant recipients must be maintained by the executive committee to properly authorize the amounts paid by the center.

We also believe that the executive committee and advisory council must record in formal meeting minutes any members who have abstained from considering a grant proposal due to a conflict of interest. Most executive committee and advisory council members are active in the arts community and will encounter grant proposals from organizations with which they are affiliated. The center's conflict of interest policy directs that "those associated with or named in a proposal cannot participate in discussion or decision making." The minutes must indicate whether the policy has been observed. When a center staff member has a conflict of interest with a grant proposal, staff should follow the provisions of Minn. Stat. Section 43A.38. This statute will normally exempt the employee from performing any duties related to the proposal.

Our second concern is that the center does not have a sufficient review process to ensure that grant recipients adhere to the grant provisions and guidelines. We cited the following examples:

- Some grant proposals included food expenses, which are not allowed by the center's grant guidelines.

- A state university was allowed to provide office space as part of its matching funds for a grant. Minn. Stat. Section 129C.10, Subd. 6, directs public post-secondary institutions to provide space at no cost for resource center programs.

- Grant recipients used the cost category "stipends" to justify a variety of payments to participants. Examples included payments to motivate potential participants to enroll in the program, to defray parking and child care costs, and to provide money to purchase educational material. However, the guidelines do not specify the allowability of these costs.

- Guidelines state that "generally" grantees should pay housing costs in residential programs; however, many grants include payments for housing.

- Some grant recipients do not provide sufficient financial information in the final expenditure reports to document local matching funds.

- The center pays expenses for some grant recipients to attend organizational meetings at the center. Reimbursements include payment of substitute teacher fees and travel costs. However, the guidelines do not identify the allowability of these costs.

Many of these problems were caused by the lack of clarity and specificity in the center's grant guidelines. The resource center director recently revised the guidelines. The revisions should help eliminate some of the problems in the future. However, it is also important that the center staff closely review grant activity and hold recipients to the terms of the grant guidelines.

RECOMMENDATIONS

- **The executive committee of the board should document specific grants and amounts authorized.**

- **The executive committee and the advisory council should document the observation of the conflict of interest policy in recommending and approving grant awards because of the potential conflicts of interests.**

- **Resource center staff should monitor the propriety of grant recipient expenditures.**

2. <u>Controls over the Minnesota Vikings Food Service contract are inadequate</u>.

The center has not assured compliance with the terms of its contract with the Minnesota Vikings Food Service (Vikings). The Vikings did not adequately document food service receipts and costs, or show causes of abnormal revenue and expense deviations on operating statements, as required by the contract. The center agreed to two contract changes without formally amending the contract. The center is not complying with Minn. Stat. Section 16B.04, which states that the Commissioner of Administration must approve state contracts. The center is responsible for the "diligent administration and monitoring of the contract," pursuant to Minn. Stat. Section 16B.06, Subd. 3.

Controls over the food service receipts are inadequate. The Vikings do not properly document meal counts or adequately control cash register receipts. The food service contract requires the Vikings to keep "careful records of the numbers served at each meal" and to prepare a monthly report "indicating total numbers of staff, employees and guests served." The Vikings do not always ring cash into the register when the cash is received. Vikings staff also use cash register funds to purchase food supplies.

The center does not monitor the monthly billing nor challenge abnormal fluctuations. For example, the center's monthly billing increased from $12,657 in February 1990 to $19,091 in March 1990 without explanation. However, the bid specifications for the Vikings contract state that "causes of abnormal revenue and expense deviations shall be noted by the contractor as part of these statements." Center staff should require written explanations of abnormal deviations and resolve such variances on a timely basis.

The center did not document contract changes with formal amendments. During fiscal year 1990, the center and the Vikings verbally agreed to two contract changes. One change provided for center students to eat at the Vikings food service in the Honeywell, Inc. building while the center completed its kitchen. The center verbally agreed to pay the Vikings for estimated, rather than actual, meals served. Because the actual number of meals served was lower than the estimate, the state paid for meals that were not eaten. During the weeks of September 11, 1989, and September 18, 1989, the center agreed to pay for 125 lunches per day at $5.75 for each lunch. Lunch receipts, however, indicate that a daily average of 83 and 66 students ate lunch at Honeywell during the weeks of September 11 and September 18, respectively. As a result, the state unnecessarily paid an additional $2,904 for luncheon meals during the two weeks. Bid specifications for the Vikings contract state:

> All requested contract adjustments shall be proposed in writing to the representative(s) for consideration and submittal to the Commissioner of Administration or designee for approval prior to becoming effective. All required contract amendment(s) shall be issued by the Department of Administration.

The center informed the Department of Administration of the verbal agreement to feed students at the Honeywell building, but the contract was not amended in writing. The center also increased food portion sizes without processing a formal contract amendment. Contract bid specifications require "all portion and price change requests shall be submitted to the state in writing for approval prior to implementation." The center needs to document contract changes in writing to prevent misunderstandings between contracting parties.

RECOMMENDATIONS

- **The center should request meal counts, reconcile lunch counts to receipts, verify cash from sales, and challenge abnormal billing fluctuations.**

- **The center should monitor the Vikings food service contract and should ensure that all contract amendments are in writing.**

3. <u>The center needs to strengthen controls over professional and technical services contracts</u>.

Center contract controls are weak in the following areas:

-- The center often incurs contractual liabilities before encumbering funds.

-- Consultants who work at the center often use state supplies and equipment. Consultant's contracts do not provide for the use of state supplies and equipment.

-- The center contracts for part-time service workers, contrary to Department of Administration guidelines.

-- Reimbursements to certain consultants did not comply with the Commissioner of Employee Relation's Plan.

-- Center staff do not always document contractual agreements in writing.

The center contracts with educators, artists and other professional personnel to teach students, develop curriculum, review student applications and to perform various other services. Professional and technical services cost $390,380 in fiscal year 1990.

The center often incurs contractual liabilities before funds are encumbered. In 19 of 19 contracts we tested, the contract period began before the center encumbered funds. Minn. Stat. Section 16A.15, Subd. 3, provides that:

> An obligation may not be incurred against any fund, allotment, or appropriation unless the Commissioner of Finance has certified a sufficient unencumbered balance in the fund, allotment, or appropriation to meet it.

Center contracts do not provide for contractors to use center supplies and equipment. Consultants who work at the center often use state supplies and equipment. As a result, the center is subsidizing contractual expenses and is establishing employment relationships with contractors. Department of Administration's Procurement Bulletin 188 prohibits agencies from establishing employment relationships with consultants. To that end, guidelines state that contractors "shall not perform services on state premises, use state supplies, or be assisted by state employees except under special circumstances provided for in the contract." One former employee who does consulting and volunteer work for the center maintains an office at the center. Center staff should provide for these special circumstances in the contracts or other written agreements.

The center employs part-time library assistants, dormitory supervisors, and other service workers through its annual professional and technical services plan contrary to state guidelines. Administration 188 prohibits contracts "for services of persons who would occupy positions assigned to craft, service, or office bargaining units." In addition, Administration 188 states that contracts may not be used to "evade position control restrictions, salary limitations, or competitive employment procedures." center staff should consider hiring part-time, temporary, or emergency employees for these ongoing positions. The center should work with the Departments of Administration and Employee Relations to ensure compliance with state procedures and any related employee union agreements.

Center reimbursements to certain consultants did not comply with the Commissioner of Employee Relation's Plan, resulting in overpayment of expenses. The center includes a contractual provision which allows consultants to receive meal reimbursements, as specified in the Commissioner's Plan. However, center staff have reimbursed consultants for lunches and dinners within the seven-county metropolitan area, which is not authorized by the Commissioner's Plan. Some meal reimbursements also exceeded the Commissioner's Plan rates. In one case, center staff reimbursed a consultant $14 for a lunch. The Commissioner's Plan does not provide reimbursement for meals within the seven-county metropolitan area and limits reimbursement rates to $6, $7.50, and $13.50 for breakfast, lunch, and dinner, respectively. The center should recover overpayments made to consultants for unauthorized amounts. Center staff should monitor consultant expense claims to ensure compliance with Commissioner's Plan provisions.

The center does not always document contractual agreements in writing. Examples include: verbal agreements with three resident coordinators who live in the student dormitory as a "condition of employment," and agreements pertaining to meetings and co-sponsored programs with nonprofit and other organizations held at the center. A verbal agreement was entered into with the Greater Twin Cities Youth Symphony which allowed the symphony to practice at the center in exchange for students to use the symphony's percussion instruments. The center needs written agreements to outline the responsibilities of both parties and to document the mutual benefit of the exchange of services.

RECOMMENDATIONS

- The center should encumber contractual funds before the contract period begins.
- Center contracts with consultants who work at the center should specifically provide for use of state equipment or supplies.
- The center should consider hiring part-time, temporary, or emergency employees to fill service positions such as library assistants and dormitory supervisors.
- The center should seek reimbursement from consultants whose expenses did not comply with the Commissioner's Plan.
- Center staff should document mutual benefit agreements in writing.

4. Fixed assets inventory controls need improvement.

Fixed assets inventory is not properly identified, recorded, or safeguarded at the center. Center staff have not inventoried and recorded equipment which the center acquired from the former owner of the campus. Staff do not affix state asset numbers to new items promptly. The center's inventory list does not include the location of equipment and, in some cases, incorrectly identifies equipment. The center does not have a secondary inventory to track sensitive items which do not qualify for the state's fixed asset system (FARM).

Center staff did not account for assets which the center leased from the former owner of the campus. During fiscal year 1990, the center leased the campus of the former Golden Valley Lutheran College. The lease agreement provided for the center to use equipment and furniture left on the site. The center did not receive a list of leased assets. Center staff did not inventory or otherwise account for the leased equipment. The FARM System User's Manual, Section II F. 2. requires agencies to label and maintain memorandum records for nonstate owned property. Such records are necessary to adequately safeguard nonstate owned property.

Center staff did not conduct a physical inventory of assets acquired before or after the purchase of the new campus in Golden Valley. The center recently purchased the former Golden Valley Lutheran College site, including the college's fixed assets. Center staff did not inventory items before the purchase or obtain a list of purchased assets. The former Golden Valley Lutheran College did not provide a list of specific assets at the sale. Staff need to conduct a physical inventory to determine assets acquired through the sale. Staff also need to add the purchased items to the FARM system.

Center staff do not mark property promptly. We observed a variety of equipment which was in use but was not marked with a state asset number. Unmarked equipment included camcorders, potter's wheels, a drill press, an air compressor and a table saw. The FARM System User's Manual, Section II B requires agencies to inspect, test and mark equipment within one week after receipt. It is important to mark items with a state asset number to facilitate tracing of lost and stolen equipment.

The center's inventory list is of limited value in tracing items. The list does not show asset location and incorrectly identifies some items. The list needs to include asset location because various departments order the same type of equipment. The Department of Administration's "Outline of Inventory Coordinator Responsibilities" advises coordinators to keep a log of assets which includes location information. The center's list incorrectly identifies some items. Examples include laser disc players identified as video projectors and printers identified as computers. The center should perform a physical inventory and correct these errors.

The center does not maintain an inventory for semi-consumable items which are below the dollar value established for FARM system reporting. Examples of semi-consumable items are chairs, tables, cassettes, and portable calculators. Many items at the center are semi-consumable items. The center needs to know items on hand in order to develop policies to properly safeguard them.

RECOMMENDATIONS

The center should:

- Conduct a physical inventory of purchased assets, including the Golden Valley Lutheran College items. Staff should add assets with a fair market value of $500 or more to the FARM system;
- Inspect, test, and mark assets within a week after receipt;
- Include fixed asset location on the center's inventory list;
- Ensure that the center's inventory list correctly identifies items;
- Maintain an inventory for semi-consumable items.

5. <u>Center controls over disbursements are inadequate</u>.

The center split payments to avoid complying with the $100 limit on local purchases, delayed payments on invoices, miscoded payments on the statewide accounting system records, and incurred some questionable expenses.

The center has split orders to avoid complying with its $100 limit on local purchases. In some cases, staff have made several credit card purchases of supplies, each purchase barely totalling under $100. Some of these purchases were made within a five minute timespan. Failure to follow Department of Administration's purchasing guidelines can result in payment of higher costs and loss of local purchase authority. Administration provides purchasing guidelines in Procurement Bulletin 7-206. These procedures were established to ensure that large purchases are made through the state's central system and authorized certain smaller items to be purchased by agencies. Purchases made by agencies must meet competitive bidding requirements. However, only one quotation is required if the purchase does not exceed $100. During the audit period, the center's local purchase authority was $100.

The center's use of credit cards for some vendors present several control problems. Employees may not solicit bids if they have credit cards at their disposal. Charge account invoices do not show purchases in sufficient detail. Also, the center has the burden of safeguarding the cards. Use of credit cards by employees increases the chance of unauthorized purchases. The Department of Finance discourages the use of credit cards by state employees. The center should strengthen controls over local purchases by using field purchase orders rather than credit cards to purchase items.

The center has miscoded payments recorded on the statewide accounting system. In one case, center staff completed a requisition to purchase holiday decorations for a student dormitory party from a local vendor. The invoice shows that staff purchased medical supplies and houseplants; however, accounting staff coded the purchase to art supplies. Center staff explained that payment miscoding occurred when the center did not have an accounting officer. Center staff stated that they planned to review prior payments and correct miscodings.

Center controls over the payment of student expenses are inadequate. Specifically, center staff have not established expense guidelines. The center pays ticket costs for students to attend dance, theater, and musical events. For example, the center paid $330 for 20 tickets to the Joffrey ballet, $200 for ten Minnesota Orchestra series tickets, $299 for Theatre de la Jeune Lune tickets, and $150 for students to attend a reception for Russian dancers on the Jonathan Paddleford. The center paid registration expenses for an incoming student to attend the All State Choir. The center also purchases supplies for dormitory parties. The center needs a written policy to establish appropriate guidelines for student expenses. Center staff need to determine which expenses are reasonable, which students should benefit from these activities, and how these students are selected. In the written policy, the center should also discuss the costs the center should pay and which costs should be shared by students. To ensure adequate controls over these types of expenses, the center needs a written policy.

RECOMMENDATIONS

- **The center should comply with its local purchase authority limit of $100. Items purchased in excess of $100 should be purchased centrally.**
- **The center should use field purchase orders for local purchases and discontinue the use of credit cards.**
- **The center should pay code expenses correctly in the statewide accounting system.**
- **The center should develop a policy to establish appropriate guidelines for the payment of student expenses.**

6. Payroll duties are inadequately segregated and controls over overtime payments need strengthening.

The center has not properly segregated payroll functions to ensure propriety of payroll transactions. Teachers have received overtime payments for work which does not qualify for overtime under their current bargaining agreement. Additionally, some overtime paid was not properly authorized in advance. Some teachers also did not explain the reasons for overtime worked.

Two center employees, an accounting officer and a clerk typist III, alternate entering payroll on the state's system and signing the payroll certification report. On occasion, the person who enters the payroll also signs the certification report. The staff person in charge of personnel also has signed the certification report. These duties are incompatible and do not provide controls for the detection of errors and irregularities. The center should ensure that the person who signs the certification report does not input payroll or have personnel functions.

Center controls over overtime need strengthening. The center pays overtime to teachers for supervising rehearsals. In addition, some overtime was not approved in advance and some teachers did not explain the reason for overtime requested. The Labor Agreement between the State of Minnesota and the State Residential Schools Education Association, which applies to center teachers, specifically states:

> Employees will be compensated at the rate of straight time when assigned to a project, approved in writing by the appointing authority, that is in addition to their normal duties.... Arts education teachers who are involved in the actual performance of an Arts center production are not eligible for overtime compensation.

Department of Employee Relations staff stated that rehearsal time does not qualify for overtime payment pursuant to the provision. We also believe that the labor agreement may be interpreted as prohibiting overtime compensation for rehearsals. However, the center has not fully applied and interpreted this provision.

Personal services is the center's largest expenditure category. Fiscal year 1990 personal services expenditures were $1,636,255, approximately 30 percent of total center expenditures. Overtime payments totalled $19,368, or about 1.2 percent of total personal services expenditures. To reduce overtime payroll costs and to comply with bargaining unit provisions, the center should pay overtime only if teachers are eligible for overtime.

RECOMMENDATIONS

- **The center should ensure that payroll duties are adequately segregated.**
- **The center should ensure that overtime is paid to teachers only if they are eligible to receive the payment.**
- **Supervisors should approve overtime in advance and staff should document the reason for overtime requested.**

7. Employee meal reimbursements did not comply with special expense plan guidelines.

Employee meal reimbursements did not comply with the center's special expense plan. Center staff have hosted lunches for nonstate employees in violation of the plan. Examples include a $94.56 lunch for six consultants and three center staff at the Calhoun Beach Club, and a $175 lunch for a grantee's staff at an outstate cafe. The center's special expense plan authorizes the center to provide only refreshments for nonstate employees.

The center incurs meal expenses routinely by scheduling board, executive committee, and advisory council meetings to last through the lunch hour. Seven executive committee meetings which included lunch were scheduled to meet during the lunch hour. The committee met from 11:30 a.m. to 1:00 p.m. on four occasions, from 11:00 a.m. to 1:00 p.m. on one occasion, from 12:00 noon to 1:00 p.m. on one occasion, and from 12:30 p.m. to 1:30 p.m. on another occasion. The center should review the propriety of meals served at board, advisory council, and executive committee meetings. Although the center's special expense plan specifically provides for the cost of serving refreshments at both board and advisory council meetings "if the duration of the meeting is more than two hours," the plan only indirectly authorizes meals. The plan defines "employee" to include "individuals serving on the board, the resource center advisory council, and any task forces that may be established." The following provision addresses meals within the work area.

> Employees may be reimbursed for the cost of a meal within the work area only if the meal is part of the agenda of a conference, workshop, seminar or meeting and/or if the employee's attendance at mealtime is required.

Department of Employee Relations Administrative Procedure 4.4 advises agencies to schedule meetings "to minimize the inclusion of meals. The center could reduce expenditures by scheduling meetings so that they do not last through the lunch hour. The center should also comply with the provisions of the special expense plan related to nonstate employees. The center should clarify the provision of meals to board, advisory council, and executive committee members. Such provisions should be limited to special occasions and not on a regular scheduled basis.

RECOMMENDATIONS

- **The center should comply with its special expense plan.**
- **The center should schedule board, executive committee, and advisory council meetings to minimize the cost of meals.**

8. Center receipts controls are inadequate.

Center staff did not reconcile receipts to statewide accounting system records, refunded student fees from the wrong fund, and did not always deposit receipts promptly. In addition, receipts duties are inadequately separated.

The center's receipts collection process is decentralized. As a result, receipts are not promptly deposited and receipts duties are inadequately separated. Several staff members are responsible for collecting receipts, which consist primarily of fees collected from students, washer and dryer vending machine receipts, and telephone fees and commissions. Staff who collect fees from students also maintain receipts records. These duties are incompatible. An employee who does not maintain receipts records should open mail, list receipts and stamp checks with a restrictive endorsement. This employee should forward funds to accounting staff to ensure prompt deposit. Staff responsible for maintaining records should receive accompanying receipt documentation for processing.

The center did not deposit receipts promptly. Six of 15 fiscal year 1989 deposits and 11 of 32 fiscal year 1990 deposits which we tested were untimely. For example, staff collected summer school fees from students from April to June of 1990. Receipts totalled $5,510 before staff deposited them. Minn. Stat. 16A.275 requires agencies to deposit receipts totaling $250 or more in the state treasury daily.

Center staff also did not reconcile receipts to statewide accounting system records. Department of Finance Operating Policy and Procedure 06:06:03 requires agencies to reconcile deposit slips each month with statewide receipts reports.

Finally, the center has paid student refunds and telephone bills from its General Fund appropriation rather than the center fund. Minn. Stat. Section 129C.10, Subd. 3 establishes a center fund for "all money collected by the board." This money, together with interest earned, is appropriated to the board "for the operation of its services and programs." Center staff deposited student damage fees and nonrefundable telephone deposits in the center fund account in the statewide accounting system. As of June 11, 1990, center fund receipts totalled $19,265.43. The center has not disbursed any money from its center fund. Center staff should pay student refunds and telephone bills with student deposits. The General Fund should be reimbursed for the amounts of student refunds and the telephone bills paid on behalf of the center fund.

RECOMMENDATIONS

To improve controls over receipts, the center should:

- Designate one employee to be responsible for mail receipts. This employee person should list mail receipts, stamp checks with a restrictive endorsement, and forward receipts to accounting staff. Accompanying receipts documentation should go to staff responsible for maintaining records.
- Deposit receipts totaling $250 or more daily.
- Reconcile deposit slips to receipts reports monthly.
- Reimburse the General Fund for damage deposit refunds and student phone expenses.

Minnesota Center for Arts Education

A Statewide Public High School & Resource Center
6125 Olson Memorial Highway, Golden Valley, Minnesota 55422 • 1-612-591-4700 • 1-800-652-9747

An Equal Opportunity Employer • Funded by the Minnesota State Legislature

Formerly Minnesota School & Resource Center for the Arts

December 19, 1990

James R. Nobles
Legislative Auditor
122 Veterans Service Building
20 West 12th Street
St. Paul, MN 55155

Dear Mr. Nobles:

We have received the Legislative Auditor's report on the Minnesota Center for Arts Education covering three fiscal years ending June 30, 1990. The comments and recommendations contained therein are extremely helpful as the agency moves into full operation and establishes policies and procedures governing its delivery of services.

Below is our formal response to your office's current findings (as of June 30, 1990) and recommendations. Most of the deficiencies cited have already been addressed and corrected.

1. **The Center must strengthen controls over its grants to local organizations.**

Grant guidelines have been revised to reflect concerns over specificity and clarity in some areas. "Stipends" to participants are no longer allowed. Scholarships and mini-grants will be provided to some participants who demonstrate financial need or extenuating circumstances. Specific proposed criteria for awarding these funds are to be included in each grant proposal. Copies of the revised program guidelines and reporting procedures are available at the center.

Procedures governing grants review and awards have been changed. Resource Programs staff review all proposals for eligibility and prepare a brief synopsis of each proposal which addresses need, quality of proposal, past history, and budget. Input from staff arts program associates and previous evaluation results are also incorporated into each summary. Summaries, staff recommendations and a complete set of proposals are then forwarded to members of the Board of Directors' Finance Committee for their personal review. The Finance Committee then meets in formal session to discuss the materials and prepare recommendations for full Board action. Minutes are taken at the Finance Committe which delineate the specific grants and amounts being recommended. Minutes are also taken at the full Board meeting where the awards are officially made by a vote of the members.

Board members and staff are aware of their responsibility to declare conflict of interest situations as noted in board policy and Minnesota statutes. These declarations will be noted in the official minutes.

With the revision of grant guidelines, appropriate monitoring of grant recipient expenditures should be easier to implement and result in improved accountability.

Jim Undercofler, Executive Director, and Karon Sherarts, Resource Programs Director, are responsible for ensuring compliance with the recommendations in this item.

2. Controls over the Minnesota Vikings Food Service contract are inadequate.

Pursuant to the auditors' recommendations, the agency is now receiving daily meal counts, cash register receipts and a daily deposit slip stamped by the bank. Fluctuations and abnormalities in billings are challenged. The staff accounting officer is serving as a second check in reconciliation functions. The contract is also being more carefully monitored in accordance with Department of Administration bid specifications and contract procedures. Amendments will be processed in writing.

The Minnesota Vikings Food Service on-site management team has changed and they are more receptive to staff requests for information and documentation.

Sharon Bonniwell, Building Facilities Coordinator, and Victor Okoye, accounting officer, are responsible for oversight in this area.

3. The center needs to strengthen controls over professional and technical services contracts.

Several steps have been taken to facilitate more expeditious handling of contracts to avoid conflicts with M.S.16A. A staff person has been added, one of whose prime responsibilities is to monitor contract initiation, formatting and processing. That staff person will also be delegated authority from our attorney general to sign off on a contract's "form and execution" if the amount of the contract does not exceed $25,000 and a pre-approved form is being used. The required staff training has already occurred and we are awaiting the return of the new contract form from the state printer. This delegation will eliminate the attorney general's review in these instances and save at least a week of processing time.

The Center does a considerable amount of contracting for short-term instructional experiences for the students in the arts high school program. Because of the on-site nature of the tasks, it is appropriate and necessary that these contractors have access to center space, computers and other specialized equipment and supplies. Such contracts will, in the future, contain language which specifically provides for these conditions.

Part-time library assistants were hired in error under the agency's professional/technical services plan. These sorts of service positions will be filled using temporary or emergency employees as the need arises.

The Center has sought reimbursement from consultants whose expenses were inadvertently overpaid in excess of the amounts allowed in the Comissioner's Plan. The overpayments were for $51.00 and $30.65. The audit report indicates that meal reimbursements within the seven county metropolitan area are not allowed. It is our understanding that the criteria for meal reimbursement is that the contractor be in travel status and more than 35 miles from their normal office.

On occasion, the Center co-sponsors programs or events with non-profit organizations on the Center's premises. These mutual benefit arrangements will be documented in writing in the future.

Barbara Martin, Deputy Director, has responsibility for items in this section.

4. **Fixed assets inventory controls need improvement.**

The Center moved into the former Golden Valley Lutheran College on August 1, 1989, through a lease arrangement four weeks before the first class in the arts high school program was to begin classes. With the limited accounting staff, and the urgency to process new personnel and provide support for significant amounts of purchasing, (while the facility was being renovated for occupancy), an inventory of the former college's assets was not conducted. These consisted primarily of classroom desks, chalkboards, cafeteria tables and chairs, badly damaged or irreparable kitchen equipment, lounge chairs, and dormitory furniture such as beds, desks, dressers and lamps. While the lease provided for the center to use existing equipment and furniture, it did not require our receipt of a list of leased assets.

During the negotiation process for the purchase of the site from the bankruptcy trustee (Norwest Bank), there was a provision inserted in the purchase agreement for the center to receive a list of assets on site that had been left behind by the Lutheran College. However, as the closing date approached, former college officials indicated they did not have the staff, resources, or time to do an inventory. Insisting on the provision of this list would have caused a delay in closing and the likely loss to the state of another month's rent of $35,000. To expedite closing and minimize loss to the state, our attorney general waived the inventory provision.

Now that the Center has achieved stability in location, program operations, personnel and seen an increase in accounting support staff, we are in a position to exert stronger control over our fixed assets. Specifically, a physical inventory will be started in January of 1991. A formal inventory of the assets belonging to the College will be taken and items meeting the $500 valuation criteria will be assigned asset numbers. Identification numbers will be affixed, and items will then be included on the FARMS inventory system. The inspection, testing, and marking of assets has become systematized internally, allowing all of the above to occur in a much more timely manner.

Currently, all purchasing/receipts/location records are intact. Only keypunching of asset program areas needs to be completed in order to properly identify an asset's location. This will be completed in January of 1991.

Proper identification of all items on the FARMS system will be evaluated during the physical inventory in January. Corrections will be made to improper identifications at that time. An inventory record is already on hand for the majority of the semi-consumable items. During January, that accuracy will be evaluated and unaccounted for items which fall into the semi-consumable category will be included.

Lee Appleby, Office Administrator, has responsibility for items in this section.

5. Center controls over disbursements are inadequate.

To ameliorate the difficulties the Center experienced with the $100 local purchase authority limit, especially in the purchase of instructional materials and emergency maintenance items, we have sought and received from the Department of Administration an expanded local purchase authority of $1,500. The 1990 legislature also provided some increased flexibility in purchasing equipment through M.S. 129C.10. Subd. 7 which states "Technical educational equipment may be procured for programs of the Minnesota center for arts education by the board either by brand designation or in accordance with standards and specifications the board may adopt, notwithstanding chapter 16B." This language will enhance the center's ability to meet unique curricular and instructional delivery needs more efficiently as they arise.

As recommended, field purchase orders will be used by employees if they are away from the office and do not have access to the usual purchasing procedure. The use of all retail credit cards has been discontinued and they have been destroyed.

Guidelines and policies have been established which govern the payment of expenses relating to student activities. All resident students are now required to make a $50 fee payment before moving into the dormitory which covers miscellaneous recreational supplies and equipment. A written policy has been created that provides direction for the purchase of tickets that enable students to attend exhibits, performances, etc. that are directly related to their instruction in a particular art area and the achievement of instructional outcomes.

Lee Appleby, Office Administrator, Mary Pietruszewski, Residence Hall Director, and the arts program associates are responsible for the items in this section.

6. Payroll duties are inadequately segregated and controls over overtime payments need stengthening.

Payroll duties have been segregated as follows: The accounting officer prepares the payroll, the account clerk senior inputs the payroll, and the office administrator signs off on the precertification report.

Overtime is not paid to teachers for performances or productions which are the final product or outgrowth of instruction. Overtime is paid to teachers for time spent in rehearsals that culminate in the final production. Rehearsal time was very specifically discussed in labor negotiations in 1989 at which both DOER and representatives of the SRSEA were present. It is my belief that there was concurrence on this issue. If this is not the case, then it may have to be re-examined during the next negotiation session.

All teachers and their supervisors have been notified and are periodically reminded of their responsibilities to secure prior approval and documentation of work that will result in overtime payments.

Lee Appleby, Office Administrator, and Jim Undercofler, Executive Director, have responsibility for items in this section.

7. Employee meal reimbursements did not comply with special expense plan guidelines.

The Center's special expense plan has been revised and approved by DOER to more clearly delineate eligibility for meals.

Board meetings **are not** routinely scheduled over lunchtime. They are scheduled for the second Friday of each month at 1:00 p.m. The Finance Committee of the Board usually meets at 12:30. Board members are responsible for obtaining their own lunches under those circumstances. Occasionally, members' schedules or an extended agenda require calling a meeting over the noon hour, and lunch is provided under those circumstances. That is the exception, however.

In July of 1990, in response to an opinion by our attorney general on the legality of a standing Resource Center Advisory Council, the board dissolved that body. In its stead, an advisory task force was appointed to provide input on resource programming. The Director of Resource Programs has been requested to not schedule those meetings over a traditional mealtime unless schedule conflicts or agenda dictate otherwise.

Barbara Martin, Deputy Director, Jim Undercofler, Executive Director, and Karon Sherarts, Resource Programs Director, are responsible for overseeing conformance with guidelines of the Center's special expense plan.

8. Center receipts controls are inadequate.

Controls over receipts have been centralized and a new procedure is in place.

The receptionist is responsible for opening all mail and removing any and all checks that the mail may contain. She (or he) then stamps the checks with restrictive endorsements and forwards them to the accounting unit. The accompanying documents or correspondence are sent to the appropriate employee who maintains program records (admissions, residential life, music, etc.). The accounting unit then records the receipts, informs the program employee of the amount of money received and the sender, and verifies what the receipts are for to ensure accurate depositing in the appropriate fund. Accounting then prepares the receipts for deposit. If the total exceeds $250, they are deposited the same day of receipt.

At the end of the month deposit slips are reconciled with the statewide accounting system deposit reports by the account clerk senior. Damage deposit refunds that were incorrectly made from the general fund have been reimbursed.

Lee Appleby, Officer Administrator, is responsible for overseeing receipts procedures.

Your staff was helpful and constructive during the audit period. We appreciated their diligence and believe we have adequately addressed their expressed concerns.

Sincerely,

Jim Undercofler
Executive Director