

MINNESOTA STATE COUNCIL ON DISABILITY  
FINANCIAL AUDIT  
FOR THE FOUR YEARS ENDED JUNE 30, 1990

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DECEMBER 1990

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Financial Audit Division  
Office of the Legislative Auditor  
State of Minnesota

90-75



# MINNESOTA COUNCIL ON DISABILITY

## FINANCIAL AUDIT JULY 1, 1986 - JUNE 30, 1990

Public Release Date: December 27, 1990

No. 90-75

### OBJECTIVES:

- EVALUATE INTERNAL CONTROL STRUCTURE: Council members per diem reimbursements and travel expenses, administrative disbursements, employee payroll, professional and technical services, and grants and donations.
- TEST COMPLIANCE WITH CERTAIN FINANCE-RELATED LEGAL PROVISIONS.

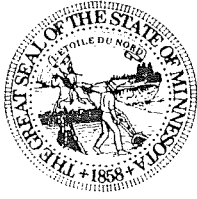
### CONCLUSIONS:

We found two areas where the internal control structure and compliance with finance-related legal provisions needed improvement:

- Controls over council members per diem charges are inadequate.
- Controls over contractual agreements need to be improved.

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

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Senator John E. Brandl, Chairman  
Legislative Audit Commission

Members of the Legislative Audit Commission

Gregg Asher, Chairman  
Minnesota State Council on Disability

Members of the Minnesota State Council on Disability

Clell Hemphill, Director  
Minnesota State Council on Disability

Audit Scope

We have conducted a financial related audit of the Minnesota State Council on Disability (council) as of and for the four years ended June 30, 1990. Our audit was limited to only that portion of the State of Minnesota's 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 June 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 State Council on Disability 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 Minnesota State Council on Disability 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

Senator John E. Brandl, Chairman  
Members of the Legislative Audit Commission  
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Clell Hemphill, Executive Director  
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- 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:

- council members per diem reimbursements and travel expenses;
- administrative disbursements;
- employee payroll;
- professional and technical services; and
- grants and donations.

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 and 2 involving the internal control structure of the Minnesota State Council on Disability. 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. We believe none of the reportable conditions described above is a material weakness.

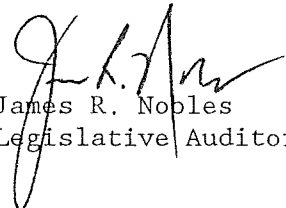
Senator John E. Brandl, Chairman  
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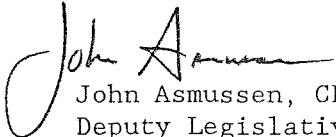
We noted certain matters involving the internal control structure and its operation that we reported to the management of the Minnesota State Council on Disability at the exit conference held on December 12, 1990.

The results of our tests indicate that, [except for the issues discussed in findings 1 and 2, with respect to the items tested, Minnesota State Council on Disability 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 Council on Disability 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 State Council on Disability. 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 State Council on Disability staff for their cooperation during this audit.

  
James R. Nobles  
Legislative Auditor

  
John Asmussen, CPA  
Deputy Legislative Auditor

END OF FIELDWORK: September 15, 1990

REPORT SIGNED ON: December 21, 1990





# MINNESOTA STATE COUNCIL ON DISABILITY

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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
Renee Redmer	Audit Manager
Kari Irber, CPA	Auditor-in-Charge

## EXIT CONFERENCE

The findings and recommendations in this report were discussed with the chairman and administrative staff of the Minnesota State Council on Disability on December 12, 1990:

Gregg Asher	Council Chairman
Clell Hemphill	Executive Director
Maude Wortham	Accounting Technician



# MINNESOTA STATE COUNCIL ON DISABILITY

## I. INTRODUCTION

The Minnesota State Council on Disability (council) operates under Minn. Stat. Chapter 256, Sections 256.481 to 256.482. The council is a service agency responsible for expanding opportunities for and promoting the rights and independence of disabled children and adults to participate fully in society.

The council represents over 600,000 Minnesotans with various types of disabilities. The council advocates legislative and program improvements to assure maximum independence for disabled Minnesotans.

The council consists of 21 members, who are appointed by the governor. According to Minn. Stat. Chapter 256.482, a majority of council members are to be persons with a disability or parents or guardians of persons with a disability. There are also nonvoting ex officio representatives from various state departments. Council members establish policies, determine goals and priorities, and oversee their activities. Council staff provide administrative support to the council. Staff also provide information and referral assistance to clients statewide. Clell Hemphill was appointed as executive director of the council on July 2, 1990.

The council is mainly funded by state appropriations from the General Fund. Expenditures for the four years ended June 30, 1990 were as follows:

	<u>1990</u>	<u>1989</u>	<u>1988</u>	<u>1987</u>
Personnel Services	\$273,173	\$294,509	\$333,087	\$298,810
Council member's per diem	20,259	24,379	6,755	6,354
Travel	38,148	32,834	20,215	22,224
Professional/Technical				
Services	49,019	50,644	10,203	3,113
Capital Equipment	6,380	2,723	13,701	3,086
Supplies	10,633	13,692	5,997	6,405
Other Administrative				
Expenses	67,633	81,635	101,019	61,288
Grants for Arts	<u>50,000</u>	<u>50,000</u>	<u>-0-</u>	<u>-0-</u>
Total	<u>\$515,245</u>	<u>\$550,416</u>	<u>\$490,977</u>	<u>\$401,280</u>

Source: Statewide Accounting System, *Managers Financial Report* as of the close for 1987-1990.

The council collects fees for booklets, copies, and other publications which are deposited into the General Fund. The council also receives grants and donations on occasion from various individuals or organizations, which are deposited into revolving funds. Total receipts received in fiscal years 1987-1990, respectively, were as follows: \$54,268, \$78,181, \$76,023, and \$1,640.

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## II. CURRENT FINDINGS AND RECOMMENDATIONS

### 1. Controls over council members' per diem charges are inadequate.

The controls over council members' per diem reimbursements need improvement. The council's per diem policy lacks specific guidance in defining the types of activities for which members are eligible to claim reimbursement. Therefore, council members have claimed amounts that we believe are questionable. The council did not require documentation to show the relationship between members activities and council business before per diem was paid. The council paid per diem to a member for a lengthy project without authorization in council meeting minutes. Finally, two council members were overpaid after filing duplicate claims.

The council needs to develop and enforce a more stringent per diem policy. A revised policy was instituted in June 1990 which specifies that attendance at other meetings that are not council meetings or committee meetings must be approved by the council chair in consultation with the executive director. However, the policy is flawed because it is not specific as to what types of other meetings are eligible. Our review of the members' travel expense forms showed that the purpose for the per diem reimbursement often does not correlate to council related activities. In some cases, the council member just indicated on the expense report that he or she met with a particular person on a specified date and time. Members did not provide sufficient explanations to document the relationship between their activities and council business. Therefore, we could not determine the propriety of certain reimbursements from the travel request forms.

The current policy also does not differentiate between council member duties and staff duties. A council member was paid per diem for an extensive project related to the administrative tasks generally performed by staff of the council office. The council member received per diem reimbursement for developing a computer program to analyze applications and to select an executive director. The member claimed reimbursement for 37 consecutive days, including weekends during the summer of 1988 for this project. The council minutes do not reflect approval for paying this member per diem for the project which totalled \$2,145. We also question whether the per diem reimbursement authority should have been used to pay a council member for administrative projects. We believe that council members should generally be reimbursed for per diem related to policy making functions. Administrative duties should be assigned to state employees of the council office.

The council should define the activities that are eligible for per diem reimbursement, and distinguish between policy and administrative office functions. The council should authorize per diem for projects other than regularly scheduled council or committee meetings. The projects authorized should be recorded in the councils' minutes of the meetings.

## MINNESOTA STATE COUNCIL ON DISABILITY

Two council members were overpaid per diem reimbursements. One council member claimed per diem charges twice in one day on two different occasions, totalling \$110 in overpayments. Another council member claimed per diem charges twice in one day on one occasion, totalling \$35. Per diem at this time was \$35. A council member is only to receive one per diem charge per day. These overpayments should be recovered from the involved council members.

### RECOMMENDATIONS

- The council should revise the per diem policy to strengthen controls so that:
  - Definite parameters are established to control specific member activities that will be reimbursed.
  - Members' council related activities for per diems are clearly defined.
  - Members' per diem does not supplant employee duties on administrative functions.
  - The council approves all projects conducted by members in the formal minutes.
- The council should seek repayment from the council members for the overpayment on per diem charges.

### 2. Controls over contractual agreements need to be improved.

The council needs to improve controls over contract procedures in the following areas:

- The council did not establish necessary contracts for professional and technical services.
- The council did not encumber funds before incurring certain obligations.
- Consultants are not documenting mileage amounts claimed for reimbursements.

The council is not in compliance with the Department of Finance Operating Policy and Procedure 06:04:05 for professional and technical services. According to the policy, if the agency has filed a professional/technical services plan, and the amount expended is below \$500 to \$700, a contract is not necessary. However, the council paid \$1,392 with general assistance grant funds in fiscal year 1989 to a consultant for training services without establishing a contract. In another instance, the council paid the University of Minnesota \$2,300 from Multiple Sclerosis Society grants for video tape duplication in 1989 and, again, did not establish a contract.

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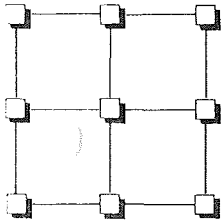
Finance Policy and Procedure 06:04:05 also states that contracts with the University of Minnesota require the use of the standard contract form developed by the Department of Administration, Contract Management Section. To avoid any misunderstandings or disputes, the council should negotiate formal written contracts with vendors as required by state procedures.

The council incurred expenses before finalizing contractual agreements and amendments. We found two examples as follows: First, the council paid the State Planning Agency \$54,000 for personnel services rendered in fiscal year 1989 and 1990. However, the council did not finalize the inter-agency agreements with the State Planning Agency until the end of each contract period. Second, the council entered into a contract for \$1,000 with a company to conduct a one-day planning retreat for the council. The council later requested the company to expand their services. The council developed two different contract amendments to increase the contract to \$5,000. However, the council incurred the expenses before the contract amendments were finalized. Minn. Stat. Section 16A.15, Subd. 3, requires that funds be encumbered prior to incurring obligations.

Finally, consultants for the general assistance training program did not document mileage amounts on their expense reimbursement forms. The contracts provide that mileage reimbursements are allowable expenses if the consultants comply with the Department of Employee Relations Commissioner's Plan. For two examples noted, the consultants claimed a considerable amount for mileage without documenting specific destinations, miles driven, and the purpose of the trip. In one case, the consultant claimed 682 miles at \$.225 per mile, but did not document how the mileage was derived. For effective control, consultants should provide documentation detailing the specific trips and related mileage. The purpose of the trip in relation to the contracts should also be shown.

### RECOMMENDATIONS

- The council should ensure that contracts are established for all eligible vendors.
- The council should ensure that contracts are finalized before services begin and payments are made.
- Consultants should provide sufficient documentation of mileage claims to show the propriety of amounts paid.



## MINNESOTA STATE COUNCIL ON DISABILITY

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December 20, 1990

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

Dear Mr. Nobles,

Minnesota State Council on Disability (MSCOD) has received our four year legislative audit, and some minimal explanation is considered necessary;

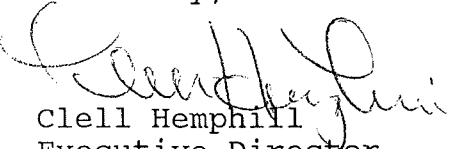
- A. In F.Y. 1989 and F.Y. 1990 MSCOD hired State Planning Office for management service over a one year period, and those services allowed MSCOD to breach good contracting principles. MSCOD has now strenghtened their purchasing and contract procedures internally and do not rely on State Planning Agency for assistance.
- B. The audit expresses concern to the lack of more detailed work tasks for Governor appointed council members vs staff tasks. MSCOD has developed a set of by-laws to augment the Minnesota Statutes, neither one is specific on task assignments, but allows for flexibility. Over the past few years council members have become involved in administrative tasks, due to the Executive Director vacancy. A permanant Executive Director has been hired to: develop staff; direct the mission; improve efficiency and expand the agency's policies and procedures.
- C. MSCOD's unique decision to develop and implement a very complicated and comprehensive pre-screening model to select management for the Council, was done by a council member with the expertise needed. It was also necessary because of the sensitivity of the situation and the need to keep the process fair and equitable. A copy of the report will be filed at the council office.

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James Nobles

- D. The work tasks for council members that are paid per diem will be more detailed, henceforth. The chair and the Executive Director will review and reassign to staff, if appropriate, any meeting that are not council or committee meetings.
- E. Letters requesting repayment to the State have been written to the two individuals for the per diem overpayments.
- F. The revised policies and procedures will be implemented by March 1, 1991 and the Executive Director will be responsible for the implementation.

At no time was there any attempt to circumvent state statute, Department of Finance procedures, etc..

Sincerely,



Clell Hemphill  
Executive Director