STATE PLANNING AGENCY
FINANCIAL AUDIT
FOR THE THREE YEARS ENDED JUNE 30, 1990

DECEMBER 1990

Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

90-76

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

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

Lani Kawamura, Commissioner
State Planning Agency

Audit Scope

We have conducted a financial related audit of the State Planning Agency 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 State Planning Agency, as discussed in the Introduction. We have also made a study and evaluation of the internal control structure of the State Planning Agency in effect in 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 State Planning Agency are free of material misstatements.

As part of our study and evaluation of the internal control structure, we performed tests of the State Planning Agency'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 State Planning Agency 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:

- fees for services,
- federal receipts,
- payroll,
- federal grant disbursements,
- state grant disbursements,
- contractual services,
- travel disbursements,
- department head expenses, and
- fixed asset inventory control

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 3 involving the internal control structure of the State Planning Agency. 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.

We also noted other matters involving the internal control structure and its operation that we reported to the management of the State Planning Agency at the exit conference held on December 12, 1990.

The results of our tests indicate that, except for the issue discussed in finding 2, with respect to the items tested, the State Planning Agency 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 State Planning Agency 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 State Planning Agency. This restriction is not intended to limit the distribution of this report, which was released as a public document on December 28, 1990.

We would like to thank the State Planning Agency staff for their cooperation during this audit.

James R. Nobles
Legislative Auditor

John Asmussen, CPA
Deputy Legislative Auditor

END OF FIELDWORK: September 21, 1990

REPORT SIGNED ON: December 21, 1990

STATE PLANNING AGENCY

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AUDIT PARTICIPATION

The following members of the Office of the Legislative Auditor participated in this audit:

John Asmussen, CPA	Deputy Legislative Auditor
Claudia Gudvangen, CPA	Audit Manager
Lori Pellicci, CPA	Auditor-In-Charge
Ellen Merlin, CPA	Staff Auditor
Dan Quandt	Staff Auditor
Amy Jorgenson	Staff Auditor

EXIT CONFERENCE

An exit conference was held with the following staff from the State Planning Agency on December 12, 1990:

Jack Ditmore	Deputy Commissioner
Roger Volk	Accounting Coordinator
Connie Duresky	Planning Information Center Office Manager

STATE PLANNING AGENCY

I. INTRODUCTION

The State Planning Agency coordinates policy analysis and development for the executive branch of state government, identifies and analyzes key policy issues, and makes recommendations for planning and for the Governor's legislative program. It operates under the direction and guidance of a commissioner appointed by the Governor. Lani Kawamura has served as commissioner of the agency since October 1, 1985. At the beginning of fiscal year 1991 the commissioner reorganized the agency into the following three divisions:

PLANNING INFORMATION CENTER: provides an inventory and analysis of geographic information, provides consultation and training on the use of personnel computer based mapping, produces business graphics, maintains an on-line data base of state information, and generates information about changes in the social, economic, political and natural environment.

POLICY PLANNING DIVISION: manages long range planning and policy development activities for the executive branch of state government to ensure the integration of plans and programs.

GOVERNMENT SERVICES DIVISION: increases client awareness of State Planning Agency services, assesses the need for new services, and performs evaluations of programs, making recommendations on them.

The State Planning Agency also provides administrative services for a number of boards, commissions and councils. The agency provided these services throughout the audit period for the Environmental Quality Board, the Health Care Access Commission and the Developmental Disabilities Council. For fiscal year 1990, the agency provided administrative services to the Council on Technology for People with Disabilities, the Council on Children 2000 and the Environmental Education Board. The Office of Full Productivity and Opportunity was a component of the agency in fiscal year 1988. In addition, the agency had fiscal control over hazardous waste siting bond funds from October 8, 1988 to June 30, 1989. All of these areas were included in our audit scope.

State Planning Agency activities are financed primarily from state appropriations, which totalled $14,800,000 for fiscal year 1990. The agency collected receipts totalling $3,214,491 during the year. This included federal receipts of $1,303,192 and $788,973 from Land Management Information Center billings. Expenditures for fiscal year 1990 are shown below.

Salaries	$ 5,104,729
Grants and Aids	7,332,221
Contract Services	978,245
Travel/Department Head	207,156
Capital Equipment	65,381
Other	1,118,239
Total	$14,805,971

Source: *Managers Financial Report* as of September 1, 1990.

II. CURRENT FINDINGS AND RECOMMENDATIONS

1. Internal controls over Land Management Information Center receipts need strengthening.

There is an inadequate separation of the billing, receiving, and accounts receivable duties relating to Land Management Information Center (LMIC) receipts. Furthermore, documentation of billing amounts and verification of accounts receivable records need improvement.

Currently, the office manager prepares invoices for billings, maintains the accounts receivable ledger, and may also receive payments from clients. The receptionist separates all agency mail and forwards any envelopes which appear to contain checks to the accounting supervisor for deposit. Frequently, however, the receptionist cannot determine that an envelope contains a check. As a result, the office manager receives a large volume of mail containing receipts. To provide a proper separation of duties, the receptionist should open all envelopes and route any checks to the accounting supervisor. It is important to separate these duties because the office manager has access to the computer system. She is able to access and change any information on the invoice and accounts receivable systems. The documentation for any changes made or voids is minimal.

In addition, project managers do not sufficiently document billing authorizations. After the office manager calculates the charges, she distributes an invoice summary report to the individual project managers. The project managers are supposed to review this report for accuracy and identify any necessary adjustments. However, they do not always document this review and their approval of the billing amount.

The agency does not reconcile receipts recorded in the accounts receivable ledgers to the amounts deposited in the state treasury as recorded in the statewide accounting system. Independent agency staff should reconcile the two records on a periodic basis to detect any errors.

RECOMMENDATIONS

- **The State Planning Agency should segregate incompatible duties by removing the office manager's access to all Land Management Information Center receipts.**

- **The project managers should approve the invoice summary report before they send out the bills.**

- **Independent agency staff should reconcile the accounts receivable ledger to the statewide accounting system. They should also investigate and document all discrepancies.**

2. <u>State Planning is not adequately monitoring the subrecipients of the Developmental Disabilities Program</u>.

The State Planning Agency is not properly monitoring Developmental Disabilities Program subgrantees. The agency has not received required quarterly narrative reports or audit reports from the subrecipients. During fiscal year 1990, the agency granted $455,816 to eight subrecipients. Grant recipients include nonprofit organizations and other units of government. In accordance with program guidelines, the subrecipients are required to submit quarterly narrative reports and annual audit reports to the agency.

Two of the five subrecipients tested did not submit all required quarterly narrative reports. In each instance, one of the four quarterly reports was missing. Similarly, two subrecipients did not submit copies of completed financial and compliance audit reports. Examination of these quarterly reports and audit reports is necessary to properly monitor the progress of the subrecipient. It is also critical in ensuring that the subrecipients spend grant funds in accordance with federal and state regulations.

RECOMMENDATION

- **The State Planning Agency should ensure that all subrecipients are submitting the required quarterly narrative reports and annual audit reports.**

3. <u>Agency controls over purchasing should be strengthened</u>.

The State Planning Agency does not maintain written documentation for receipt of all fixed assets purchased. Currently, the accounting department verbally confirms receipt of goods before it pays the bills. Documenting receiving reports serves to assure that the accounts payable clerk makes payment only for goods received. It also provides a record of receipt so the agency can resolve disputes if they arise.

In addition, agency staff do not confirm invoice charges before making payment for items purchased under state price contracts. When the agency receives an invoice for goods purchased through a contract, they often pay without being sure prices agree with the contract.

RECOMMENDATIONS:

- **Agency staff should document and retain receiving reports before making payment for fixed assets.**

- **The agency should confirm the accuracy of invoices for purchases made under state price contracts before making payment.**

STATE OF MINNESOTA
State Planning Agency
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December 18, 1990

The Honorable John Brandl, Chair
Legislative Audit Commission
Veterans Service Building
St. Paul, Minnesota 55155

Dear Senator Brandl:

The Office of the Legislative Auditor has conducted a financial-related audit of the State Planning Agency for the three-year period ending June 30, 1990. The State Planning Agency has reviewed the audit report and met with the auditors to discuss its findings. The purpose of this letter is to respond to the findings of the report.

The State Planning Agency views the financial-related audit as an opportunity for the Agency to review its fiscal and accounting practices. We are pleased that, in general, the audit report shows that our fiscal and accounting procedures are sound. We will take immediate action on the recommendations in the audit report. Specifically:

1. Strengthening Internal Controls over Land Management Information Center Receipts

We agree with the finding of the auditors that envelopes containing checks may sometimes be forwarded to the Office Manager for the Planning Information Center (PIC). This practice has occurred because some checks do not reference invoice numbers. The Office Manager determines whether:

- The check, in fact, is a payment for services already invoiced and for which project;
- The check is a pre-payment for an EPPL-7 order (i.e., a software package licensed to and sold through the State Planning Agency) which needs to be invoiced and then marked as paid in our system; or
- The check is a new subscription for DATANET (i.e., an online information system developed and marketed through the Agency) services which needs to be invoiced and then marked as paid in our system.

The Office Manager forwards all checks to the Accounting Officer for deposit in the state treasury.

However, we recognize the importance of separating billing, receiving, and accounts receivable duties. To strengthen controls:

- o The PIC secretary, who receives unopened mail from the SPA receptionist, will open all envelopes received. If the envelope contains a check, it will be forwarded to the Accounting Officer. The Accounting Officer will deposit in the state treasury checks which reference a project and invoice number.

- o If a check does not contain a reference and invoice number, the Accounting Officer will contact the Office Manager to determine if the check involves a payment for services invoiced, an EPPL-7 prepayment, or a new subscription for DATANET.

- o If the check is a payment for an invoiced amount, the check will be deposited and the Accounting Officer will record the payment in the state treasury. If the check is a prepayment for services, the Accounting Officer will forward information to the Office Manager so that the amount can be invoiced and marked as paid in the LMIC system. The check will then be deposited.

- o The Accounting Officer will send a listing of all deposits and of the A68 Interdepartment Fund Transfer report to the Office Manager to ensure all payments are recorded in the LMIC billing system. Any discrepancies will be reconciled.

To monitor invoicing, the Office Manager sends to project managers a report of the charges for the past month for the accounts of the project manager, a billing history of each account for the fiscal year, and a summary report of the charges to be billed (FINALQ). The project managers are required to approve the billing, either by writing "OK" next to each account or by initialing the account, on the FINALQ. Credit/adjustment slips for each account which requires an adjustment are attached, where they have to be pre-approved by the LMIC GIS Applications Supervisor. The Office Manager produces an invoice based on this information.

- o While we will continue to follow this procedure, the Office Manager will be responsible for assuring that prior written approval exists for all billings. In addition, the Office Manager will be responsible for making project managers aware that they must keep all documentation on billings in their project files.

Finally, to adequately reconcile accounts, the Accounting Officer will continue to send copies of the check listing for each revolving fund deposit to the Office Manager. The

Office Manager will send a listing of the credit balances on accounts for each month to the Accounting Officer. The Office Manager will create a report and send it to the Accounting Officer that will show (1) invoices paid each month, (2) the amount paid and the balance due, and (3) date of payment.

2. <u>Adequate Monitoring of Sub-Recipients of the Developmental Disabilities Program</u>

In F.Y. 1990, the auditors found that two of five sub-recipients did not submit all required quarterly reports. In the two cases, one of the quarterly reports was missing in each case.

The failure to obtain the two quarterly reports has been called to the attention of the Grant Administrator and his supervisor. A procedure has been developed which requires the Grant Administrator to create a log for all grant programs. The log will be used to record the arrival of all material related to grant projects.

One page of the log will be devoted to quarterly reports. When a quarterly report arrives, the date will be recorded in the log. The Grant Administrator will use the log to determine when quarterly reports have not been received in a timely manner. The grant recipient will be notified of the requirement to submit a quarterly report when this report is not received at the time required. In addition, the log will be used to record submission of audit reports and other required materials.

3. <u>Strengthen Controls over Purchasing</u>

The Accounting Officer has requested verbal verification of the receipt of fixed assets. However, we concur in the auditor's recommendation that written verification should be obtained. Beginning immediately, the Accounting Officer will request packing slips which are dated and initialed verifications of the receipt of items before payment is issued. The Accounts Payable Officer will randomly verify pricing on state contract invoices with the documentation noted on the invoice checked.

We believe that the above actions will address the findings of the audit and avoid future problems.

Sincerely,

Lani Kawamura

LANI KAWAMURA
Commissioner