

**CAPITOL AREA ARCHITECTURAL AND PLANNING BOARD
FINANCIAL AUDIT
FOR THE FOUR YEARS ENDED JUNE 30, 1991**

NOVEMBER 1992

Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

CAPITOL AREA ARCHITECTURAL AND PLANNING BOARD

FINANCIAL AUDIT FOR THE FOUR YEARS ENDED JUNE 30, 1991

Public Release Date: November 13, 1992

No. 92-80

OBJECTIVES:

- **EVALUATE INTERNAL CONTROL STRUCTURE:** Employee payroll expenditures, professional/technical contracts, and building construction expenditures.
- **TEST COMPLIANCE WITH CERTAIN FINANCE-RELATED LEGAL PROVISIONS.**

CONCLUSIONS:

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

- The board failed to document the basis for certain charges to bond funds.
- The board does not adequately control projects completed jointly with other agencies.
- The board did not properly control consulting services.
- Employees did not receive written performance evaluations.

We found two areas where the board had not complied with finance-related legal provisions:

- The board charged questionable costs to bond funds in some cases.
- Employees did not receive written performance evaluations.

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

Representative Ann Rest, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Lieutenant Governor Joanell Dyrstad, Chair
Capitol Area Architectural and Planning Board

Members of the Capitol Area Architectural and Planning Board

Mr. Gary Grefenberg, Executive Secretary
Capitol Area Architectural and Planning Board

Audit Scope

We have conducted a financial related audit of Capitol Area Architectural and Planning Board as of and for the four years ended June 30, 1991. Our audit was limited to only that portion of the State of Minnesota financial activities attributable to the transactions of Capitol Area Architectural and Planning Board, as discussed in the Introduction. We have also made a study and evaluation of the internal control structure of Capitol Area Architectural and Planning Board in effect at June 1991.

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 transaction of Capitol Area Architectural and Planning Board are free of material misstatements.

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

Management Responsibilities

The management of Capitol Area Architectural and Planning Board is responsible for establishing and maintaining an internal control structure. This responsibility includes compliance with applicable laws, regulations, contracts, and grants. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected

benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that:

- assets are safeguarded against loss from unauthorized use or disposition;
- transactions are executed in accordance with applicable legal and regulatory provisions, as well as management's authorization; and
- transactions are recorded properly on the statewide accounting system in accordance with Department of Finance policies and procedures.

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

Internal Control Structure

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

- payroll,
- professional/technical service contracts, and
- building construction disbursements.

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

Conclusions

Our study and evaluation disclosed the conditions discussed in findings 1 to 4 involving the internal control structure of Capitol Area Architectural and Planning Board. 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.

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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 the reportable condition described in finding 1 is a material weakness.

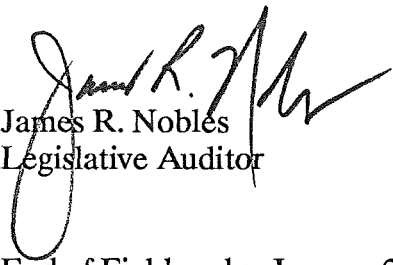
We also noted other matters involving the internal control structure and its operation that we reported to the management of Capitol Area Architectural and Planning Board at the exit conference held on October 16, 1992.

Material instances of noncompliance are failures to follow requirements or violations of prohibitions, contained in statutes, regulations, contracts, or grants that cause us to conclude that the aggregation of the misstatements resulting from those failures or violations is material to the financial activities being audited. The results of our tests of compliance disclosed the instances of material noncompliance noted in finding 1.

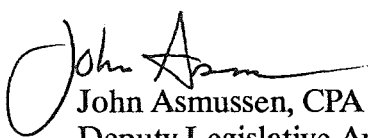
Except as described above, the results of our tests indicate that, except for the issue discussed in finding 4, with respect to the items tested, Capitol Area Architectural and Planning Board complied, in all material respects, with the provisions referred to in the audit scope paragraphs. With respect to items not tested, nothing came to our attention that caused us to believe that Capitol Area Architectural and Planning Board 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 Capitol Area Architectural and Planning Board. This restriction is not intended to limit the distribution of this report, which was released as a public document on November 13, 1992.

We would like to thank the Capitol Area Architectural and Planning Board staff for their cooperation during this audit.



James R. Nobles
Legislative Auditor



John Asmussen, CPA
Deputy Legislative Auditor

End of Fieldwork: January 24, 1992

Report Signed On: November 6, 1992

Capitol Area Architectural and Planning Board

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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
Jeanine Leifeld, CPA	Audit Manager
Alan Finlayson, CPA	Auditor-in-Charge
Kari Irber, CPA	Auditor

Exit Conference

The findings and recommendations in this report were discussed with the following staff of the Capitol Area Architectural and Planning Board on April 1, 1992 and again on October 16, 1992:

Gary Grefenberg	Executive Secretary
Paul Mandell	Senior Planner
Renita Dellwo	Fiscal Officer

Capitol Area Architectural and Planning Board

Introduction

The Capitol Area Architectural and Planning Board is responsible for architectural design and comprehensive planning for the Capitol area. Its role is to preserve and enhance the architecture of the area, and develop a framework for future growth. Under Minn. Stat. Section 15.50, the board has the authority to establish zoning rules within this area.

A ten member board, chaired by the the Lieutenant Governor, directs the operations of the entity. The other nine members are appointed as follows: four by the Governor, three by the Mayor of Saint Paul, and one each by the Majority Leader of the Senate and the Speaker of the House of Representatives. Gary Grefenberg is the executive secretary of the board.

The board uses General Fund appropriations, as well as appropriations for specific building projects. The board also has historically charged some of its planning and design costs to construction projects appropriated to and managed by other state agencies.

The following is a summary of expenditures for fiscal years 1988 through 1991, both from the General Fund and the Building Funds.

	Fiscal Year			
	<u>1991</u>	<u>1990</u>	<u>1989</u>	<u>1988</u>
Payroll	\$240,891	\$214,284	\$180,966	\$144,952
Professional Services	75,127	98,859	104,133	221,373
Building Construction	0	0	281,641	0
Other	<u>45,616</u>	<u>123,347</u>	<u>61,727</u>	<u>64,262</u>
Total	<u>\$361,633</u>	<u>\$436,490</u>	<u>\$628,467</u>	<u>\$430,587</u>

Source: Statewide accounting Managers Financial Report at the close of each respective fiscal year.

Capitol Area Architectural and Planning Board

Current Findings and Recommendations

- 1. The Capitol Area Architectural and Planning Board failed to document the basis for certain charges to bond funds and, in some cases, charged questionable costs.**

The Capitol Area Architectural and Planning Board charged expenses to bond funds without adequately documenting the basis for some of the charges and, in the case of certain administrative costs, for unauthorized purposes. We reviewed a total of \$1,878,514 the board paid from bond funds during July 1, 1986 through June 30, 1991. We found that the board had not documented its rationale for allocating \$409,141 in payroll costs to bond funds during the period. We also found that at least \$7,275 of costs the board charged to bond funds were not allowable.

The state is not allowed to charge costs that are not legitimate project expenditures to bond funds. Article XI, Section 4 of the state constitution restricts the state's power to contract public debt to certain authorized purposes. Section 5 authorizes the use of funds "to acquire and to better public land and buildings and other public improvements to a capitol nature. . ." In 1989, the state received a legal opinion from the state's bond counsel which stated that operating expenditures cannot be financed with bond funds. The bond counsel further clarified that bond funds could not finance planning costs, such as expenditures for studies, promotional work, and preparing financial information.

The board did not attempt to systematically allocate salary costs to projects. Because of this, we were unable to determine whether the board's payroll charges to bond funds were reasonable. The board did not maintain documentation to support \$409,141 in payroll costs it charged to bond funds during fiscal years 1987 through 1991. These costs represent salary payments of \$252,406 for project planners and \$156,736 for administrative support employees. The board generally charged an entire planner or support staff salary to a project for a period of time. In other cases, the board made large, unsupported payroll expense transfers between accounts after the fact. The executive secretary was unable to document the basis for the payroll transactions, but believes that the bonds funds were charged an appropriate amount of the board's payroll costs.

We believe that at least \$7,275 in costs the board charged to bond funds during fiscal years 1987 through 1991 did not meet the bond counsel criteria and were therefore unallowable. About \$4,500 of these costs appear to support the general operations of the board, such as printing newsletters. The board acknowledges charging the remaining \$2,700 to bond funds in error.

Finally, the board did not adequately document the relationship between certain professional and technical services it purchased and the bond accounts it charged. The board

Capitol Area Architectural and Planning Board

made these payments mostly to consultants for planning studies and to the board's various advising architects. We found \$1,719 in advisor fees and \$15,201 in professional contracts where the link between the work and the specific project charged was not clear. Because the bond counsel opinions are subject to interpretation, we believe that additional board costs charged to bond funds may not be allowable.

Recommendations

- *The Capitol Area Architectural and Planning Board should work with the Departments of Administration and Finance to analyze costs charged to bond funds and reimburse any improper payments.*
- *The board should develop adequate procedures and documentation to ensure that only allowable costs are charged to bond funds.*

2. The Capitol Area Architectural and Planning Board does not adequately control projects completed jointly with other agencies.

The board does not clearly define its role for projects completed jointly with other agencies. The board must authorize any architectural work in the capitol complex. As a result, it sometimes charges planning and design costs to construction projects appropriated to and managed by other state agencies.

The board frequently charges planning costs to Department of Administration appropriations for building projects within the capitol area. Also, we noted one case where \$539,933 in costs for the construction of a capitol area parking ramp, a Department of Administration project, were charged to a board appropriation. The board and the department did not prepare written agreements for these joint funding relationships.

In addition, the board did not prepare a written agreement with the Minnesota Historical Society concerning joint costs of the Labor History Center. In this case, the board hired planning consultants on behalf of the Historical Society's Labor History Center project. The Historical Society documented the arrangement by using a purchase order. The Historical Society originally issued a purchase order for \$2,500 to the board. As a result of a series of scope changes, the board ultimately billed the Historical Society for over \$16,000.

The board needs to define its role and responsibilities for capitol area projects completed jointly with other agencies. Written agreements are necessary to document the intent and estimated costs of work performed by both the board and by other agencies. Agreements would help each agency ensure the appropriateness of expenditures incurred.

Capitol Area Architectural and Planning Board

Recommendation

- *The Capitol Area Architectural and Planning Board should establish written agreements for any joint projects.*

3. The board did not properly control consulting services.

Controls over consulting service contracts are weak in several areas. The board did not always establish contracts timely and, in some cases, did not establish a contract at all. The board has not developed clear terms of compensation or specific contract duties with all contract vendors. Finally, some vendor invoices did not provide detailed information concerning charges. During fiscal years 1988 through 1991, the board expended approximately \$500,000 for consulting services.

The board incurred some obligations during the audit period before it had finalized a written contract with the vendor. In eleven of 14 contracts we tested, the board allowed the vendor to begin work before encumbering the contract. In fact, the board purchased \$5,200 in management advisory services and \$2,751 for the reconstruction of a model of the capitol area without any written contract. Minn. Stat. Section 16A.15 requires state agencies to establish encumbrances before the vendor starts work. Valid encumbrance ensure that the agency has sufficient funds to honor the obligation.

The board did not reach a clear understanding with some vendors regarding their duties and terms of compensation. The board often writes contracts to include the flexibility to work on additional projects not specifically mentioned in the contract. The board has developed a work order form to document additional work. However, the board has not always used this process successfully. The board did not develop specific guidelines within the work order for one board advisor. The advisor exceeded the original project cost estimate and did not meet the board's work order specifications. In another case, although the contract specified that any additional work must be authorized in writing, the board did not issue a work order for the additional tasks. As a result, the board questioned the vendor's invoice for the additional work. The board could avoid these disputes by ensuring that all additional work and compensation is clearly authorized in writing.

Finally, the board did not always require contract vendors to provide enough detail in their bills to verify the propriety of the charges. For example, invoices for five contracts only listed a total number of hours billed each month, rather than hourly detail. Vendor invoices should provide sufficient detail to allow the board to verify the propriety of the charges.

Recommendations

- *The Capitol Area Architectural and Planning Board should establish policies concerning contracting for consulting services.*

Capitol Area Architectural and Planning Board

Recommendations (Continued)

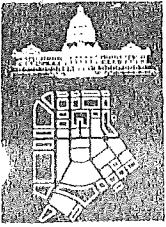
- *The board should improve controls over contracts by:*
 - *Encumbering funds prior to incurring obligations,*
 - *Clearly stating duties and compensation arrangements, and*
 - *Requiring complete, detailed invoices before paying vendors.*

4. PRIOR FINDING NOT RESOLVED: Employees did not receive written performance evaluations.

Several board employees have not received written performance evaluations at least annually, as required by the bargaining agreements covering these employees. Performance evaluations are the basis for annual salary increases and achievement awards. They also provide feedback to the employee regarding satisfactory completion of job duties. Only two of the board's six classified employees had written evaluations during the period audited. The employees should be given the opportunity to review and sign the evaluation.

Recommendation

- *All employees should receive written performance evaluations annually.*



Capitol Area Architectural and Planning Board

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October 30, 1992

Ms. Jeanine Leifeld, Audit Manager
Office of the Legislative Auditor
First Floor, Centennial Office Building
658 Cedar Street
St. Paul, MN 55155

Dear Ms. Leifeld:

Thank you for the ample opportunity to review and comment on your various drafts regarding our 1988-1991 financial audit.

Though this was a detailed and difficult audit at times, I sincerely believe the results are productive and will benefit the state through our improved financial management.

The attached response is keyed to your draft findings and recommendations. This response outlines our current or proposed compliance with all your recommendations.

Sincerely,

Gary Grefenberg
Executive Secretary

GRG:dlw

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CURRENT FINDINGS & RECOMMENDATIONS
Audit for Fiscal Years 1988 - 1992
for the Capitol Area Architectural and Planning Board

FINDING #1

1. The Capitol Area Architectural and Planning Board failed to document the basis for certain charges to bond funds and, in some cases, charged questionable administrative costs.

Response:

We agree with this finding. Last June we began to provide detailed documentation of current payroll costs, and reviewed our payroll documentation format with you at an October 16th meeting. You suggested that I and the respective CAAPB employee periodically certify in writing that these payroll costs funded from bond funds are accurate. We have adopted that recommendation.

We also agree that during fiscal years 1988 through 1991 \$7,275 of the \$1,469,373 in administrative costs charged to bond funds were either mistakes or, now that we have the benefit of the 1989 legal opinion referred to in your report, errors of judgment.

We thus are currently complying with the second of your following two recommendations; and will comply with the first following publications of your audit report.

- *The Capitol Area Architectural and Planning Board should work with the Departments of Administration and Finance to analyze costs charged to bond funds and reimburse any improper payments from its General Fund operating appropriation.*
- *The board should develop adequate procedures and documentation to ensure that only allowable operating costs are charged to bond funds.*

FINDING #2

2. The Capitol Area Architectural and Planning Board does not adequately control projects completed jointly with other agencies.

Response:

We agree with this finding, and have begun implementing a policy of written understandings for joint projects between the CAAPB and other agencies.

CURRENT FINDINGS & RECOMMENDATIONS

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In the two instances referred to in your report, a joint parking ramp project with the Administration Department and a parking demand assessment with the Historical Society, it should be noted that we had initially requested a written budget for joint agency approval be developed in the first instance, and an interagency agreement be drafted in the second case. In both cases the response was that this was not necessary, but I realize I should have persisted and required some form of written agreements.

We thus will comply with your recommendation as follows:

- *The Capitol Area Architectural and planning Board should establish written agreements for any joint projects.*

FINDING #3:

3. The board did not properly control consulting services.

Response:

We agree that controls over consulting service contracts are weak in several areas, and have initiated staff training and the development of clear policies and corresponding forms to assist in controlling consulting services. In the past we have relied too heavily upon our statutory provision which exempts the Board from most of the provisions of chapter 16A ("Department of Finance") or 16B ("Commissioner of Administration").

State law requires the review by our three Architectural Advisors of all architectural and planning matters brought before the Board (MS 1990, subdivision 2[f]). We cannot always anticipate what these architectural and planning matters will be when we draft the Advisors' annual contracts. Some flexibility in these advisory contracts is therefore necessary in order to comply with this statutory requirement.

Within the Advisors' contractual advisory duties, however, we have reemphasized the necessity of using the new work order forms, in order to authorize work in writing prior to its initiation. We have also amended those forms to call for more specificity in detailing assigned tasks, and allocation to appropriate funds.

We also now are now implementing a policy of either drafting specific contractual language or requiring additional billing detail.

We agree with your report's following recommendations and have therefore already begun their implementation this past June:

CURRENT FINDINGS & RECOMMENDATIONS

Audit for Fiscal Years 1988 - 1992

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- *The Capitol Area Architectural and Planning Board should establish policies concerning contracting for consulting services.*
- *The board should improve controls over contracts by:*
 - *Encumbering funds prior to incurring obligation,*
 - *Clearly stating duties and compensation arrangements, and*
 - *Requiring complete, detailed invoices before paying vendors.*

FINDING #4:

4. PRIOR FINDING NOT RESOLVED: Employees did not receive written performance evaluations.

Response:

We agree. Written performance evaluations have been performed for all employees whose annual review has occurred since the receipt of your draft recommendation.

We will continue this policy in agreement with your following recommendation:

- *All employees should receive written performance evaluations annually.*

GRG:rnd

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