MINNESOTA CENTER FOR ARTS EDUCATION

FINANCIAL AUDIT

FOR THE TWO YEARS ENDED JUNE 30, 1992

AUGUST 1993

Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

93-45

Centennial Office Building, Saint Paul, MN 55155 ● 612/296-4708

STATE OF MINNESOTA
OFFICE OF THE LEGISLATIVE AUDITOR
CENTENNIAL BUILDING, ST. PAUL, MN 55155 • 612/296-4708
JAMES R. NOBLES, LEGISLATIVE AUDITOR

Senator Phil Riveness, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

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

Ms. Audrey Eickhof, Chair
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 two fiscal years ended June 30, 1992. 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 December, 1992.

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 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

- 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,
- student fees and deposits,
- contracts for professional and technical services,
- repairs and purchased services, and
- grants to local organizations.

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 3 to 10 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. We believe the reportable condition described in finding 3 is a material weakness.

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 April 6, 1993.

The results of our tests indicate that, except for the issues discussed in findings 1 and 2, 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 August 27, 1993.

James R. Nobles
Legislative Auditor

John Asmussen, CPA
Deputy Legislative Auditor

End of Fieldwork: February 26, 1993

Report Signed On: August 20, 1993

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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, LPA	Audit Manager
Brad White, CPA	Auditor-in-Charge
Jean Mellett, CPA	Staff Auditor
Janet Knox, CPA	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 April 6, 1993:

James Undercofler	Executive Director
Barbara Martin	Deputy Director
Pam Paulson	Resource Programs Director
Mark Youngstrom	Academic Education Director
Sharon Jasa	Arts Education Director
Lee Appleby	Administration/Accounting Director
Bob Raiolo	Accounting Officer

Introduction

The 1985 Legislature created the Minnesota Center for Arts Education 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 in Minnesota. The high school offers programs in media arts, visual arts, dance, theater and music, in addition to an academic program. The center 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 is located on the former site of the Golden Valley Lutheran College. The 1990 Legislature appropriated $4,250,000 to acquire the center site which was purchased on September 19, 1990. The state also owns property designated as the St. Paul site. The 1987 Legislature appropriated $4,000,000 to acquire the property and an additional $250,000 for demolition costs. This property is currently leased to the City of St. Paul and Metropolitan Transit Commission for parking and buses. The Department of Administration oversees the lease agreement.

The Minnesota Center for Arts Education received appropriations, after reductions, of $5,064,000 and $5,869,026 in fiscal years 1992 and 1991 for its operations. Center appropriations carry forward between fiscal years of the biennium, but cancel at the end of the biennium. The center carried forward $564,255 of the fiscal year 1990 appropriation into fiscal year 1991, cancelling $129,154 as of September 5, 1992. The center collected student fees and deposits totalling $162,554 and $54,542 for fiscal years 1992 and 1991, respectively.

The center incurred the following expenditures in fiscal years 1992 and 1991:

	1992	1991
Personnel Services	$2,583,193	$2,364,363
Professional/Technical Services	462,727	733,208
Purchased Services	462,356	1,100,701
Grants to Local Organizations	853,119	628,365
Other Expenses	764,566	1,329,936
Total	$5,125,961	$6,156,573

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

Current Findings and Recommendations

1. The center has no formal policy or process to monitor conflicts of interest for board members, employees, contractors, and grantees.

The center does not have a conflict of interest policy which specifies the process to report and resolve potential conflicts of interest. Known affiliations exist between board members, employees, contractors, and grant recipients. Some board and advisory council members are employed by organizations that receive center grant funds. Grant organizations also employ center staff to teach workshops. Center staff initiate contracts with family relatives under the center's professional and technical services annual plan. These situations may create potential conflicts of interest as defined in the code of ethics for employees of the executive branch, Minn. Stat. Section 43A.38, Subd. 5(a) and 6(a).

Some board and advisory council members are active in the arts community and encounter grant proposals from organizations with which they are affiliated. In prior audits, we recommended that the center develop a process to remove these members from the discussion and authorization of grants awarded to their respective organizations. Currently, three board members are employed by arts organizations which receive grant funds from the center. The center indicated that these members usually did not attend board meetings when the agenda included grant proposals from their respective organizations. However, the center has not developed a formal written policy and process to identify and resolve the members potential conflicts of interest. The center needs a formal process to ensure that members do not use their official positions to influence the selection and approval of grants to organizations that employ them.

Two center faculty worked for grant organizations during the school year without taking appropriate vacation leave from the center. Grant organizations employ center faculty and staff to conduct and teach workshops. Generally staff take vacation from the center to work for grant organizations. However, two center employees claimed regular hours worked or sick leave taken on the center's timesheets when they were instructing workshops for other organizations during these hours. Both the grant organizations and the center paid these staff compensation for these same hours. Minn. Stat. Section 43A.38 clearly prohibits the use of state time for private interests. Overpayments to these staff and the related recommendation are discussed further in finding 2.

The center contracted for professional and technical services with some immediate family members of employees. We noted three family members under contract with the center that were paid a total of $11,675 for two years. Although the center may need the specialized services of a qualified family member, we believe that the center needs to proceed with caution in employing family members. One family member was paid $9,275 for violin lessons.

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It may be appropriate to contract with a highly qualified family member for a specialized service if the center documents the lack of other resources. However, we do not believe that the other two family members under contract provided a specialized service. These members provided routine general services to the center for $1,200 each. One of these contracts was also initiated and monitored by the related party which creates a potential conflict of interest. The close personal relationships with contractors increases the likelihood that the work is not sufficiently publicized or competitively bid when necessary, and that contractor fees could be excessive. Since the center can pay contractors up to $5,000 without a formal state contract, extra precaution is necessary to ensure fair selection and reasonable compensation of contractors.

Recommendations

- *The center should develop a comprehensive conflict of interest policy governing board and council members affiliated with grant organizations. The policy should specify the process to identify and resolve members potential conflicts of interest related to discussing and approving grant awards to employing organizations.*
- *The center should develop a process to ensure the fair selection of contractors. The center should monitor the propriety of contracting with family members. The center should only use family members for specialized services and it should document that these services are not available from other contractors. The center should publicize and consider other contractors for services that are not specialized.*

2. Two center faculty inappropriately claimed state wages while conducting workshops and receiving compensation from other organizations.

Two center faculty instructed workshops for grantee organizations during the center's school year. These employees claimed hours worked or sick leave taken on the center's timesheets, although they were instructing workshops during these hours. In addition to receiving state compensation for these hours, the employees were paid by the grantee organizations for conducting the workshops. Minn. Stat. Section 43A.38 clearly prohibits use of state time for private interests.

One employee was paid regular wages and sick leave compensation by the center while conducting workshops for a grantee organization. The employee was paid $4,950 by Film in the Cities for various workshops conducted in 1991 and 1992. The employee claimed double compensation from the center and the grantee for four days spent instructing workshops. The center overpaid the employee $998.06 in wages for the four days in question. The days questioned are for workshops held by Film in the Cities on June 19 and June 26, 1992, and June 21 and August 9, 1991. The employee instructed these four workshops during the center's normal workday.

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We were also concerned about this employee's potential misuse of state paid sick leave during the workshops held in 1992. The employee was on extended sick leave from June 17 to June 30, 1992. The workshop dates were June 15 through June 20 and June 22 through June 27. During this time period, the employee claims to be compensated for only two of the days in question for actually teaching the workshops. However, the employee's 1992 contract with Film in the Cities also provided an additional five days of compensation to plan, travel, and evaluate workshop participants. The employee claims to have performed these duties during evenings and on weekends while on paid sick leave from the center.

In May 1993, the center completed an investigation into the alleged misuse of sick leave and the inappropriate compensation paid by the state. The center and the employee agreed with the overpayment of $998.06 for the four days while teaching workshops for Film in the Cities. The center reduced the employee's vacation leave balance for the four days that the employee used to teach the workshops. The center agreed with the employee's claim that the additional planning, travel, and evaluation responsibilities were done on evenings and weekends and did not conflict with the sick leave paid by the center.

Another faculty member received state salary of $157.60 for eight hours while teaching a workshop for a grantee organization, the Great American History Theatre. The center's investigation disclosed that this part-time employee erroneously claimed eight hours of double compensation when teaching workshops on June 10 and June 11, 1992. This employee generally took vacation leave for teaching workshops; however, the employee admitted to erroring on these occasions. The center reduced the employee's vacation leave balance by eight hours. The employee agreed with this adjustment.

The center has no conflict of interest policy and does not require staff to disclose when they work for center grantees. Management indicated that they were not aware these employees were absent to teach workshops for grantee organizations on the days in question. They agree with the need for supervisors to closely monitor outside employment arrangements to ensure that the staff hours worked for the center are legitimate.

Recommendations

- *The center should develop a formal conflict of interest policy for employees working for grant organizations. The policy should include the process of notifying the center of working relationships with other organizations. The policy should address the proper procedure to take vacation leave for teaching workshops for other organizations.*
- *When outside employment arrangements are disclosed, supervisors should closely monitor staff hours worked for the center to ensure that compensated hours are not excessive or improper.*

3. The center has not adequately controlled funds granted to local organizations.

The center has not properly monitored expenditures and enforced other financial stipulations imposed on organizations which receive grants from the center. The center does not ensure that grantees comply with budgeted expenditures and local matching requirements. Center staff do not sufficiently investigate reasons for variances or unusual expenditures reported by grantees. Finally, the center does not review differences between its records and the statewide accounting system.

The center granted approximately $1.4 million to local educational and arts organizations. The grantee organizations provide budget proposals to the center for review and approval. The grants generally require a minimum ten percent (10%) in-kind or cash match to ensure a financial commitment to the project. Once the grant is approved and paid, the center requires a periodic financial report from the organization or other recipient to assess the progress and status of the project. Budget and actual expenditure categories must be reported for the grant funds and local match portion. Several concerns were noted with the center's process to monitor and enforce these grant provisions:

- Changes in matching levels are not reported to the center and approved by center staff. One grantee used $2,060 of center grant funds to pay a portion of its matching administrative costs of $7,805. This effectively reduced the match contribution below the minimum 10% level allowed.

- Budgeted expenditure categories are changed without the approval of center staff. An organization shifted a match of $975 for housing costs to grant expenditures, while claiming other additional, unanticipated costs totalling $1,067.

- Final expenditure reports reflect discrepancies and inconsistencies without center staff investigating the variances. The center awarded $15,000 to an organization for a $25,150 project requiring a $10,150 match. The grantee submitted two different final expenditure reports. One reported expenditures of $14,739 with no match, while the second showed total expenditures of $21,000 including a $1,400 match. Center staff have not released final payment of $1,500 on this grant; however, staff have not investigated nor examined grantee financial records to determine reasons for variances. The center should resolve variances before making final payments.

Grant organizations should be required to comply with grant program requirements. If grantees do not comply with the budget and matching contributions, the center should investigate financial records of the grantee organization. The center should make appropriate adjustments to the funds granted and consider discontinuing any future grants to organizations that do not comply with grant provisions.

Finally, the center does not review variances between its records and the statewide accounting system. One organization did not receive a $7,900 grant payment, yet center records showed that it was paid. Center accounting staff deposited the grant check, which was returned, into statewide accounting without informing grants staff. As a result, grants records still reflected the amount as paid. The center needs to periodically compare balances to ensure that errors are detected promptly.

Recommendation

- *Center staff should improve controls over grant programs by:*
  - *approving all changes to budget and matching contribution levels;*
  - *investigating questionable match contributions reported;*
  - *making adjustments to grants for noncompliance with policies; and*
  - *comparing grant records to statewide accounting system reports.*

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

Center staff do not clearly describe duties in certain contracts and do not amend contracts when duties change. The center pays certain consultants travel time; although, the contract does not stipulate such provisions. Center staff initiate contracts with former employees. Also, the center does not justify the cost effectiveness of employing consultants for ongoing services rather than hiring state employees.

The center does not adequately describe the duties in security consultant contracts. Duties performed by security personnel differed from contract stipulations in two cases. The center executed two $7,000 contracts for security consultants in fiscal year 1992. The contracts stated that consultants would determine security needs in the dormitory on an as-needed basis. The contracts provided that the consultants would perform site observations in the dormitories, and prepare and implement security recommendations. However, the security consultants did not prepare a formal report on dorm security recommendations. The center told us that the consultants actually provided dormitory supervision of students, similar to resident coordinators The lack of clarity of consultant duties increases the risk of misunderstanding the responsibilities of each party. In addition, the center may incur unnecessary liability if contractors perform actual services that differ from duties specified in contracts.

The center pays contractors for travel days when contracts do not specify payment for travel time. The center contracts for dance initiative instructors to teach workshops at various sites throughout the state. The contracts do not specify if the daily fee covers travel days. However, the center pays certain dance instructors for travel time. Contractors can be overcompensated if travel days and other reimbursement provisions are not clearly specified in the contracts.

Center staff do not amend certain contracts when the contractor's duties are changed. The dance initiative program incorporated additional schools into the program. However, contracts with program instructors do not reflect these added responsibilities. Staff indicate that the contracts were not amended since the consultant agreed to perform the additional duties without charge. However, the center did incur additional travel expenses, as a result of these added duties, which were not specified in the original contract.

Center staff initiate contracts with former employees of the center. Contracts with former employees may create a potential conflict of interest and jeopardize fair selection and reasonable compensation of the contractor. The former resource programs director for the center received a $23,476 contract to coordinate a conference. The center should exercise care in selecting and compensating contractors who were previously employed by the center. The center needs to document that it considered other contractors and that other resources were not available when selecting former employees for contract services.

The center has not justified the cost effectiveness of employing ongoing contractors rather than hiring state employees. The center contracts for nursing, recreation, and teaching services without formalizing a cost benefit analysis. Many contractors have had continual relationships with the center for several years. The center should reconsider the cost benefit of using contractors to fill these long term needs or justify that the contract services are less expensive.

Recommendation

- *The center should improve controls over professional and technical services contracts by:*
  - -- *accurately specifying consultants duties;*
  - -- *paying travel days only when provided for in contracts;*
  - -- *amending contracts when consultant duties change; and*
  - -- *justifying the fair selection and cost effectiveness of hiring former employees and long-term contractors.*

5. The center lacks adequate accounting information to control student funds.

Student fees and deposits are commingled by the center. Without distinguishing student revenue collected, the center has no assurance that these receipts are used for the intended purpose. Additionally, the center is not certain if emergency and dorm damage deposit monies will be sufficient to pay obligations for student refunds.

Accounting staff do not deposit music and student activity fees into separate accounts to finance these activities. Instead the center deposits revenue into a single account and makes periodic transfers to other accounts when needed for disbursement. Since fees are not tracked separately, staff maintain several supplementary records. To increase control and efficiency, the center should direct revenue into separate accounts for each fee activity. Staff can then use accounting system reports to manage these activities without the need for supplementary records.

Refundable dorm damage deposit monies are also not distinguished. As a result, the center has no assurance that sufficient monies are segregated for refunds due students. The center should isolate student deposit monies in the accounting system to identify the balance of funds available. This will allow the center to continually compare funds on hand to outstanding obligations.

Recommendation

- *The center should improve controls over student fees and deposits by:*
  - -- *distinguishing between each fee and deposit type collected and directing this revenue into separate accounts;*
  - -- *providing staff with accounting system reports to manage activity spending; and*
  - -- *periodically comparing the total obligation for emergency and dorm damage deposits to total funds available.*

6. The center does not adequately control imprest cash for student activities.

Center staff handle a high volume of cash for student activities. Staff are advanced cash for large purchases rather than making these payments through the Department of Finance or the center's local checking account. Imprest cash balances exceeded the $2,000 limit approved by the Department of Finance. The center has not developed a replenishment cycle to accumulate and document disbursements. Certain imprest cash uses appear questionable and unreasonable.

Student services and dormitory staff handle an unnecessary amount of cash. The center makes large purchases from cash instead of using its checking account or processing state warrants. During the past two years staff spent $18,950 in cash for student activities. Staff make repetitive cash purchases over $50 to vendors. The center does not use purchase orders for these purchases. One staff recently received $200 in cash to buy pool table equipment for the dormitory. The excessive use of cash for these purchases increases the risk of loss or theft of the center's monies. Generally payments over $50 should be paid by local check or statewide accounting warrant, unless explained and documented. Minn. Stat. 15.191, Subd. 1 authorizes imprest cash funds for the purposes of making minor disbursements, which Department of Finance Policy and Procedure #06:06:05 indicates is up to $50.

The center does not maintain the student activity imprest cash fund at the authorized level of $2,000. The center does not make structured replenishments as required by Department of Finance policy, but rather requests continual cash advances of $500 or $1,000. Cash advances are not easily linked to cash uses and at times exceed the amount disbursed. As a result, the actual imprest cash balance on hand fluctuates above and below the authorized level. This also creates demands on staff to generate internal records to account for cash received and disbursed.

We also noted undocumented cash prizes totalling $220. The center gave $626 in cash prizes to advisor groups and students. The center's student activity policy allows party prizes, but does not indicate the type. Providing cash as a prize increases risk of loss or theft unless the center can develop controls to improve the accountability for the cash given. This would require the center to separate the awarding and disbursing of cash prizes in addition to documenting the recipients.

Recommendation

- *To improve control over imprest cash activities, the center should:*
  - *minimize cash handling by using purchase orders with vendors, making payments by local check, and disbursing large payments with statewide accounting warrants;*
  - *maintain imprest cash funds at the $2,000 authorized level;*
  - *establish a formal replenishment process, as required by Finance Policy 06:06:05, which accumulates payment documentation for statewide accounting reimbursement; and*
  - *improve the accountability for prizes given to advisory groups and students.*

7. PRIOR FINDING PARTIALLY RESOLVED: Center staff do not confirm sales receipts and do not review the propriety of salary charges.

The center does not properly control food service cash collections. The center also does not review the reasonableness of the payroll charges. The center contracts with the Vikings Food Service to provide food and beverages for the students. Students pay a meal fee to the center to defray the cost of the contract. Vikings staff work in the center and collect any cash sales or over-the-counter receipts. Center staff deposit the receipts in the state treasury; however, they do not do not compare cash collections to the cash register tapes. The center does not obtain the annual salary costs of the Vikings employees for its review and approval as required in the contract. Without these controls, the center has not assured compliance with the terms of its food service contract with the Vikings.

Center staff do not confirm food service sales receipts to the cash register tapes. The center did not obtain some of the cash register tapes from the Vikings employees. In November, 1992 the center began depositing food service receipts in the state treasury for collections made by Vikings employees. During the first two months, the center deposited $2,034 in cash sales. However, the center did not have cash register receipts with the deposits for seven days. We found differences in the cash register accumulative sales readings. Changes in the accumulative sales indicate $648 was collected but not deposited. The center has not investigated the reason for this variance. Effective controls over cash collections require that the daily cash register tape readings and the change in accumulative totals agree with cash deposited.

The center does not review the reasonableness of the Vikings employees salary expenses. Center staff receive monthly invoices from Vikings reflecting costs incurred during days of operation. Most costs are verified to vendor invoices; however, payroll costs are not reviewed. The contract provides that the center will review and approve the Vikings staff salaries annually. The center has not obtained payroll information to confirm the reasonableness of the charges. The center should obtain and review Vikings payroll information, or consider other means to ensure that the payroll charges are proper.

Recommendation

- *The center should improve controls over the food service contract by:*
  - -- *obtaining the cash register tapes and comparing to the receipts;*
  - -- *using accumulative sales totals to reconcile daily receipts;*
  - -- *investigating any shortages in daily or accumulative sales; and*
  - -- *reviewing reasonableness of Vikings staff salaries.*

8. The payroll system does not properly reflect faculty release time.

Center faculty do not separate paid release time on timesheets. When faculty are absent to participate in professional development or training they post regular hours worked. The central payroll system reflects this as regular pay rather than other compensated time off. Payroll controls over hours worked and leave taken are weakened, since all absences are not accounted for, either as leave or paid training. We noted several substitute teachers being hired on dates when faculty timesheets reflect regular hours worked. It is uncertain whether the faculty were absent for paid training or if leave should have been taken. Once faculty isolate all hours absent, center management can evaluate the appropriateness of compensated release time when leave has not been taken.

Recommendation

- *Faculty should separate paid training and professional development hours on their timesheets. The center should account for all faculty absences from the center as leave or paid training.*

9. The center routinely pays premium overtime to the administrative secretary.

The center does not efficiently use its resources by paying premium overtime to the administrative secretary each payperiod. The center routinely authorized and paid an average of 4.5 hours to the secretary each payperiod in 1992. The employee received premium overtime pay at time and one-half the regular payrate for overtime hours. The total overtime paid in 1992 was $2,346 ($1,564 at the regular hourly payrate and $782 at one-half the regular payrate).

The routine use of premium overtime is not an efficient use of the center's financial resources. While the employee's bargaining agreement allows compensation of authorized overtime at time and one-half, the routine use of overtime is not a prudent use of the center's financial resources. Prudent management of financial resources requires minimizing the use of premium overtime pay. The center explained that the secretary performs some additional clerical tasks for the overtime. Cost savings can occur by delegation of clerical and nonsensitive tasks to another employee. The center should not use premium overtime routinely but use it for exceptions only.

Recommendation

- *The center should utilize financial resources efficiently by minimizing costs of premium overtime.*

10. PRIOR FINDING PARTIALLY RESOLVED: The center does not properly identify certain disbursements in the statewide accounting system.

Center accounting staff use incorrect payment codes to identify disbursements recorded in the statewide accounting system. Improperly identified transactions weaken the center's ability to analyze and verify financial data shown on the accounting system. Staff can override procurement processes or other control procedures by improperly coding transaction types. Accounting system users are also not properly informed when analyzing disbursements. The following transactions were miscoded in the statewide accounting system:

- interagency payroll totalling $49,786 was identified as board per diems;
- employee conference and travel costs for $925 were coded as membership fees;
- refunds for $157 were actually student mileage stipends; and
- employee reimbursements for supplies, video rentals and late fees of $352 were coded as travel.

Recommendation

- *Center accounting staff should accurately code and identify payments in the statewide accounting system.*

Minnesota CENTER for
arts education

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August 6, 1993

Mr. James R. Nobles
Legislative Auditor
Centennial Building
St. Paul, MN 55155

Dear Mr. Nobles:

Enclosed please find the Center for Arts Education's response to the recently completed audit for the two years ending June 30, 1992.

Your staff was very helpful to us during the audit process. We appreciate the assistance they were able to provide.

Sincerely,

James F. Undercofler
Executive Director

Enc.

Minnesota Center for Arts Education
Response to Report of Legislative Auditor
August, 1993

1. **The center has no formal policy or process to monitor conflicts of interest for Board members, employees, contractors and grantees.**

   The Center has begun the process of developing a formal and comprehensive conflict of interest policy. In the past, Board members who had affiliations with organizations which were the potential recipients of Board-approved grants declared their conflict in the Board minutes and either did not vote, left the meeting, or did not attend the meeting at which grant discussion and approval was to occur.

   The conflict of interest policy will require formal disclosure by Board members of previous and current affiliations, as employees or members of governance bodies with arts and education organizations. Members with such associations will be precluded from participating in the preliminary discussions during which grant recommendations are formulated by staff, as well as prohibited from voting on affiliated grants during the final Board approval process. The Board has, in the past, approved slates of grants within defined categories. We will be investigating the feasibility of having the Board vote on each individual grant, thereby providing greater opportunity for members to declare their respective conflicts on the record.

   The statutorily created Resource Center Advisory Council referenced in this report was repealed during the 1991 legislative session. In its place, the Board created, through its authority under M.S. 129C.10, a biennially-appointed Resource Programs Advisory Task Force to provide the Director of Resource Programs with broad policy direction and input in the development and implementation of outreach programming. Task force members perform no advisory or approval role in any phases of the Center's granting processes.

   The conflict of interest policy will also delineate the extra precautions to be taken on the rare occasions when contracting with family members for specialized expertise may be needed to achieve a programmatic objective. Contract initiators will be required to declare the conflict, identify the staff member with the affiliation, and document the lack of other resources available for this purpose. Contract initiators and monitors may not have a familial relationship with the contractor whose services are required.

   Jim Undercofler, Executive Director, and Barbara Martin, Deputy Director, are responsible for the policy's development and implementation. The policy will be adopted by the Board prior to its approval of the Minnesota Arts eXperience (MAX) summer grants currently scheduled for December, 1993.

Other issues raised in this section are addressed under items 2 and 4.

2. **Two center faculty inappropriately claimed state wages while conducting workshops and receiving compensation from other organizations.**

The Center is currently developing a formal employee conflict of interest policy dealing with staff who work, on a supplemental and occasional basis, with organizations which are the recipients of Center grants. These instances are most likely to occur during the summer months--June through August--when the Center's MAX arts education programs are operating throughout the state. Some of the sponsoring organizations have solicited Arts High School staff to teach in these programs. Arts school faculty work at the Center 11 months out of the year--August through June--and are not on state payroll during the month of July. They are allowed, if approved by supervisory staff, to use accrued vacation time during June and August, when they are on state payroll, to teach at MAX sites.

The conflict of interest policy will require that staff provide formal, written notification of their employment at a grant site to their supervisor and accounting staff . This will facilitate the monitoring of time and vacation records and reduce the possibility for double compensation. This reporting requirement will be incorporated as part of the Center's policies and procedures manual during its annual revision in September. Faculty and supervisors have already been notified of the reporting procedure. Resource programs staff, the initiators and monitors of most of the Center's grants, have also been apprised of their need to report employee participation in grant activities. Barbara Martin, Deputy Director, is responsible for the policy's development and implementation.

3. **The center has not adequately controlled funds granted to local organizations.**

The center believes that its Resource Programs staff have performed grant monitoring and enforcement functions in a fiscally responsible manner. The Resource Programs division of the Center issues, on a biennial basis, over $1 million in grants to organizations throughout the state for the purposes of enhancing arts education statewide. Over the biennium, usually between 80 and 100 programs receive funding. Grants staff have developed and begun the implementation of the following measures to strengthen the oversight and compliance functions noted in the three cases cited.

* In recognition of the fact that grantees' budgets may change between the time of submission and implementation, new grant guidelines will allow up to a 10% variation in budget categories without Center staff approval. All requests for changes in excess of 10% will have to be submitted in writing to staff and preapproved before the changes are allowed, both before and during the program. Because of the considerable time lapse (usually between five and seven months) between grant approval and program implementation, the staff is exploring the possibility of requiring grantees to

submit an implementation budget for approval two weeks before the program is scheduled to begin. The implementation budget will then be used as the basis for comparison with the final budget report. All final reports will have to be submitted on the Center's final budget report form.

* Grantees will be allowed six weeks after their programs end to submit final reports. If a report has not been received during that six week period, a reminder notice will be sent and a submission deadline established. If a report is not received by that date, or the grantee has not contacted Center staff about mitigating circumstances and a formal extension, a third notice will be sent terminating the grant agreement.

* Formal telephone logs will be maintained to document conversations with grantees concerning issues raised and resolutions suggested.

* New grantees will receive increased levels of technical assistance throughout the granting process to assure that there are clear understandings about reporting and budgetary requirements.

* Grants staff will visit, on a periodic basis, grant sites and review fiscal records for compliance.

* Formal reconciliation methods have been established with accounting staff to assure that internal grant records align with the statewide accounting system.

Nancy Engen-Wedin, Assistant Director of Resource Programs, is responsible for the implementation of the new procedures. The procedures will be in place by the beginning of the next grants cycle in January, 1994.

4. **The Center needs to strengthen controls over professional and technical services contracts.**

The Center issues a high volume of small professional services contracts for a wide variety of tasks on an annual basis. These services range from the provision of music lessons to Arts High School students to program evaluation and assessment and staff development. During the last fiscal year, over 400 small technical services agreements were written, as were 32 larger contracts for such things as coordination of the Dance Education Initiative and MAX summer programs evaluation.

Terms and conditions of these contracts are clear and appropriately prescriptive. All contracts go through a computerized three stage preapproval process. This has resulted in low rates of error in content and process.

Corrective actions have been taken to address the specific instances cited (i.e. language changes have been made to reflect the supervisory nature of the former security contracts, newly initiated contracts will reflect specific numbers of travel days with accompanying rates of payment, and staff have been informed of the need to amend contracts if duties change, even if there appears to be no change in compensation required).

Center staff do not, as a matter of routine, initiate contracts with former staff members. At the time of the former Resource Programs director's resignation, she was heavily involved in the planning stages of a several day statewide multicultural conference. Staff believed that terminating her involvement in the implementation of this event could have jeopardized its success, given her strong professional ties to the Native American and Hispanic communities. This was documented in the certificate of negotiation that accompanied the contract through its approval process.

The Center is in the process of analyzing its long-term contractual needs. One high school instructional contract has been converted to a part-time position and the coordinator of the Dance Education Initiative, working on a consultant contract, has been notified that the contract will be converted to a full-time position in July, 1994. Other contracts of long-term duration will be analyzed to determine the cost effectiveness of conversion to employee status. The removal of complement caps by the state legislature during the 1993 session will provide considerably more flexibility in how the Agency staffs to meet its programming objectives. Barbara Martin, Deputy Director, in concert with program managers, will develop recommendations in this regard by the end of school year 1994.

5. **The Center lacks adequate accounting information to control student funds.**

All of the suggested recommendations were implemented as of July 1, 1993. All fees and other revenue collected by the Center are being deposited into their own accounts which are as follows: residential fees, music fees, activity fees, emergency fees, damage deposits, general revenue, graduation revenue, Resource Programs revenue, commissions and gifts.

With the establishment of these new accounts, the Center can ensure that receipts are used for their intended purposes and that there are adequate funds to pay incurred obligations. Deposits are no longer made to a single account, but to the discrete revenue accounts referenced above. This eliminates the need for periodic transfers to other accounts for disbursement purposes. We will be able to rely on the statewide accounting system to manage these records without the maintenance of supplementary internal documentation.

6. **The center does not adequately control imprest cash for student activities.**

All of the corrective actions recommended in this report have been taken.

Students are required to pay an annual student activity fee which is the revenue source for the imprest cash account. These funds are used to support extra activities in the dormitory and other schoolwide activities such as advisor groups. Many vendors of supplies and services for these kinds of activities have been unwilling to accept purchase orders for small amounts. All of these purchases were preapproved, receipts were provided and careful records kept. Two of the full-time, live-in residential staff have now been added as signatories on the student activity checking account maintained at a local bank. This will enable dorm staff to use checks for most purchases. Cash will not be used for items or services in excess of $50 and for purchases over $100--only vendors willing to accept purchase orders and statewide accounting warrants for payment will be used.

The Center has now established a formal imprest cash process for replenishing expended funds. Each time replenishment is requested, a reconciliation form will have to be completed by the requester and approved by the accounting officer to ensure appropriate reconciliation of disbursements, cash on hand, and the checkbook balance. The sum of these three figures must equal $2,000, the authorized limit, or the request for replenishment will be denied. The practice of giving cash prizes (between $5 and $25) for dormitory activities and awards such as Halloween contests and dance competitions has been discontinued. In lieu of cash, gift certificates or small purchased prizes will now be given.

7. **Center staff do not confirm sales receipts and do not review the propriety of salary charges.**

Oversight of the food service operation has been transferred to the Coordinator of Student Services from the Building Facilities Coordinator, whose position has been eliminated. The Coordinator of Student Services currently monitors the federal school lunch and breakfast programs. We believe his oversight of the entire food service function will strengthen the Center's ability to supervise the terms and conditions of the service contract, devise cash reconciliation methods and review on a regular basis the payroll obligations of the vendor. We also are projecting by the end of school year 1994 to have the food service daily cash register records incorporated as part of the Center's management information systems to allow us another check on purchases made in the cafeteria.

The first of several meetings with officials of Vikings Foods is scheduled for the third week of August. It is our expectation that appropriate procedures and controls will be established at that time for implementation when school starts, the first week of September.

Tom Carlson, Coordinator of Student Services, and Bob Raiolo, Accounting Officer, have responsibility for these tasks.

8. **The payroll system does not properly reflect faculty release time.**

All faculty have been notified of the importance of separating time spent during regular work hours for professional development or training from regular hours worked on their timesheets. The Center recognizes the difficulty this causes for appropriate evaluation of compensated release time when leave has not been taken. Faculty supervisors and support staff have also been made aware of their roles in monitoring timesheets to avoid such errors.

9. **The Center routinely pays premium overtime to the administrative secretary.**

The administrative secretary referenced in this section works for the Executive Director. The workload is heavy and much of it revolves around confidential issues which are not easily or appropriately delegated to other staff. The numbers of clerical support staff in the agency are extremely limited and they are all working at full capacity, making it difficult to assume other responsibilities. The steady erosion of the Agency's operating budget over the last four years has resulted in fewer support persons producing, by necessity, more work. The suggested delegation of work, although desirable, is not possible on a regular basis. We believe at this time it is more cost efficient to pay the overtime required to achieve the desired outcomes. The alternative would be to hire additional support staff. This would not be a prudent management choice, given the Agency's limited resources and the possibility that additional professional staff may have to be hired this year to implement new programming responsibilities.

10. **The center does not properly identify certain disbursements in the statewide accounting system.**

Center accounting staff are aware of the four errors cited and recognize the potential for budgetary control problems they pose. Accounting staff process, on an annual basis, more than 7,000 payments. The revamping of the Center's cost coding system for FY 94 should allow for more accurate and easier budget tracking by program budget managers as an additional check on the accounting staff's payment coding process.