

# **Minnesota Indian Affairs Council**

## **Financial Related Audit**

**For the Four Years Ended June 30, 1995**

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**October 1995**

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**Financial Audit Division  
Office of the Legislative Auditor  
State of Minnesota**

**95-48**





STATE OF MINNESOTA

**OFFICE OF THE LEGISLATIVE AUDITOR**

CENTENNIAL BUILDING, 658 CEDAR STREET • ST. PAUL, MN 55155 • 612/296-4708 • TDD RELAY 612/297-5353

JAMES R. NOBLES, LEGISLATIVE AUDITOR

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Representative Ann Rest, Chair  
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. Robert Peacock, Chair  
Minnesota Indian Affairs Council

Members of the Minnesota Indian Affairs Council

Mr. Joseph Day, Executive Director  
Minnesota Indian Affairs Council

We have audited the Minnesota Indian Affairs Council for the period January 1, 1991, through June 30, 1995, as further explained in Chapter 1. Our audit scope included: payroll, consultant and professional/technical services disbursements, and the Indian Business Loan Program. The following summary highlights the audit objectives and conclusions. We discuss these issues more fully in the individual chapters of this report.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we obtain an understanding of management controls relevant to the audit. The standards also require that we design the audit to provide reasonable assurance that the Minnesota Indian Affairs Council complied with the provisions of laws, regulations, contracts, and grants significant to the audit.

This report is intended for the information of the Legislative Audit Commission and the management of the Minnesota Indian Affairs Council. This restriction is not intended to limit the distribution of this report, which was released as a public document on October 27, 1995.

We thank the Minnesota Indian Affairs Council staff for their cooperation during this audit.

James R. Nobles  
Legislative Auditor

John Asmussen, CPA  
Deputy Legislative Auditor

End of Fieldwork: July 19, 1995

Report Signed On: October 20, 1995



# SUMMARY

State of Minnesota

Office of the Legislative Auditor

Centennial Office Building • St. Paul, MN 55155  
612/296-4708

## **Minnesota Indian Affairs Council**

### **Financial Related Audit For the four Years Ended June 30, 1995**

Public Release Date: October 27, 1995

No. 95-48

### **Council Background**

The Minnesota Indian Affairs Council was created by the Legislature in 1963. The Council membership consists of the elected tribal chair of the eleven reservations throughout the state, two at large members and several ex officio members representing state agencies. The Council advises the Legislature on the nature of tribal governments, the relationship of tribal governments to the Indian people of Minnesota, and on other Indian affairs issues. The Council administers the Indian Business Loan Program, which offers Minnesota-based Indians the opportunity to establish or expand a business enterprise in Minnesota by providing low-interest loan capital.

The current Minnesota Indian Affairs Council chair is Robert Peacock. The Council appointed Joseph Day as the new executive director on October 12, 1994. The Council maintains staff and office space in Bemidji and St. Paul.

### **Audit Areas and Conclusions**

Our audit scope included payroll, consultant and professional/technical services disbursements, and the Indian Business Loan Program for the period July 1, 1991 through June 30, 1995.

The Minnesota Indian Affairs Council has established policies and procedures to ensure that payroll is properly authorized, adequately supported, and accurately recorded. The Council is adequately documenting and approving its time sheets and leave requests.

The Council has established policies and procedures to ensure that consultant and professional/technical service contracts are properly authorized and that payments are adequately supported and accurately recorded. However, we noted that the Council did not establish a contract with a soil scientist. The Council encumbers its funds prior to incurring an obligation.

The Council has established policies and procedures to ensure that loans are properly authorized, processed, and recorded. The Council has properly recorded loan repayments and severed minerals taxes into the Indian Business Loan Fund. However, the Council does not promptly deposit receipts to the state treasury in accordance with Minn. Stat. Section 16A.275. The Council has not written off any delinquent loans.

Contact the Financial Audit Division for additional information.

296-1235



# **Minnesota Indian Affairs Council**

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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
Tom Donahue, CPA	Audit Manager
Carl Otto, CPA	Auditor-in-Charge

### **Exit Conference**

The findings and recommendations in this report were discussed with the following staff of the Minnesota Indian Affairs Council at the exit conference held on October 17, 1995:

Joseph Day	Executive Director
Charlotte White	Executive Assistant



# Minnesota Indian Affairs Council

## Chapter 1. Introduction

The Minnesota Indian Affairs Council, formerly the Indian Affairs Intertribal Board, was created by the Legislature in 1963. The Council membership consists of the elected tribal chair of the eleven reservations throughout the state, two at large members and several ex officio members representing state agencies. In addition, legislation enacted in 1976 created an Urban Indian Advisory Council to advise the Minnesota Indian Affairs Council on problems and concerns of urban Indians.

The Council advises the Legislature on the nature of tribal governments, the relationship of tribal governments to the Indian people of Minnesota, and on other Indian affairs issues. The Council also serves as an intermediary through which Indian issues and concerns are addressed to various state agencies. The Council administers the Indian Business Loan Program which offers Minnesota-based Indians the opportunity to establish or expand a business enterprise in Minnesota by providing low-interest loan capital.

Robert Peacock is the current chair of the Minnesota Indian Affairs Council. The Council appointed Joseph Day as its executive director on October 12, 1994. Roger Head, the former executive director, resigned in November 1993. JoAnne Stately succeeded Mr. Head as executive director until her resignation in June 1994. The Council maintains staff and office space in Bemidji and St. Paul. The available resources and expenditures of the Council during the audit period are presented in Table 1-1. The financial activities of the Council's Indian Business Loan Program is shown in Table 4-1 in Chapter 4.

**Table 1-1**  
**Summary of General Fund Financial Activity**

General Operations:	Fiscal Years Ending June 30			
	1992	1993	1994	1995
Sources:				
General Fund appropriation (1)	\$394,420	\$449,415	\$420,751	\$308,417
Other	<u>59,506</u>	<u>55,636</u>	<u>66,746</u>	<u>52,935</u>
Total Sources	<u>\$453,926</u>	<u>\$505,051</u>	<u>\$487,497</u>	<u>\$361,352</u>
Expenditures:				
Payroll	\$232,385	\$343,380	\$325,539	\$222,770 (2)
Consultant, Professional Services	138,103	77,604	93,933	51,886
Other Administrative Expenses	<u>83,438</u>	<u>84,067</u>	<u>68,025</u>	<u>86,696</u>
Total Expenditures	<u>\$453,926</u>	<u>\$505,051</u>	<u>\$487,497</u>	<u>\$361,353</u>

Note: (1) General Fund appropriation is amount expended, not appropriated.  
(2) Decrease in payroll cost reflects staff turnover and vacant positions.

Source: Revenue and expenditure transactions recorded in the statewide accounting system from July 1, 1991 to June 30, 1995.

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## Chapter 2. Payroll

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### *Chapter Conclusions*

*The Minnesota Indian Affairs Council has established policies and procedures to ensure that payroll is properly authorized, adequately supported, and accurately recorded. The Council is adequately documenting and approving its time sheets and leave requests.*

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The Minnesota Indian Affairs Council currently has eight employees. The Council accounting staff processes payroll through the statewide payroll system on a biweekly basis. The Department of Finance actually inputs the payroll for the Council. The Council's payroll for general operations during the audit period is shown in Table 1-1. Payroll for the business loan program is shown in Table 4-1.

Our review of payroll focused on answering the following questions:

- Are Council time sheets and leave requests adequately documented and approved?
- Does the Council have policies and procedures to ensure that payroll is properly authorized, adequately supported, and accurately recorded?

The audit methodology used to evaluate the audit objectives over payroll included inquiries, analytical reviews, and sampling. We interviewed accounting staff to gain an understanding of its payroll process. We tested a sample of time sheets, leave requests, and payroll reports to ensure that the Council properly authorized, adequately supported, and accurately recorded payroll.

The Minnesota Indian Affairs Council has established policies and procedures to ensure that payroll is properly authorized, adequately supported, and accurately recorded. The Council is adequately documenting and approving its time sheets and leave requests.

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## Chapter 3. Consultant and Professional/Technical Services

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### *Chapter Conclusions*

*The Council has established policies and procedures to ensure that consultant and professional/technical service contracts are properly authorized and that payments are adequately supported and accurately recorded. However, as discussed in Finding 2, we noted that the Council did not establish a contract with a soil scientist. The Council encumbers its funds prior to incurring an obligation.*

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The Minnesota Indian Affairs Council disbursed a total of \$361,526 for consultant and professional/technical services, as shown in Table 1-1. The Council primarily enters into contractual agreements for the identification, protection, and re-burial of Indian remains. During the audit period, the Council contracted with Hamline University to perform these duties. The Council also established work orders with a soil scientist to examine suspected cemetery sites.

We focused our review of consultant and professional technical service payments on the following objectives:

- Does the Minnesota Indian Affairs Council have policies and procedures to ensure that consultant and professional/technical contracts and payments are properly authorized, adequately supported, and accurately recorded?
- Does the Council encumber its funds prior to incurring an obligation?

During our audit, we gained an understanding of the consultant and profession/technical contract cycle through interviews with key personnel. We performed a review of consultant and professional/technical payments made throughout the audit period. We performed testing to ensure that all payments were accurate and supported by a properly executed contract, as well as properly recorded on the statewide accounting system.

The Council has established policies and procedures to ensure that consultant and professional/technical service contracts are properly authorized and that payments are adequately supported and accurately recorded. However, as discussed in Finding 1, we noted that the Council did not establish a contract with a soil scientist. The Council encumbers its funds prior to incurring an obligation.

## Minnesota Indian Affairs Council

- 1. The Council did not establish contracts with a consultant providing professional/technical services.**

The Council utilizes the services of a soil scientist to examine and map suspected cemetery sites. Under Minn. Stat. Section 307.08, the state archaeologist designates individuals authorized to perform these duties. The Council hired the only soil scientist authorized by the state archeologist to investigate and map burial sites. Whenever the services of the soil scientist were needed, the Council developed work orders identifying the nature of the work. However, no contracts were ever developed. In addition, the work orders did not specify a total cost for each of the projects. The soil scientist submitted invoices to the Council totaling \$37,178 during the audit period.

### *Recommendation*

- The Council should establish professional/technical services contracts in addition to the work orders. The contract should specify a maximum amount limit for the work to be performed.*

## Chapter 4. Indian Business Loan Program

### Chapter Conclusions

*The Council has established policies and procedures to ensure that loans are properly authorized, processed, and recorded. The Council has properly recorded loan repayments and severed minerals taxes into the Indian Business Loan Fund. However, the Council does not promptly deposit receipts to the state treasury in accordance with Minn. Stat. Section 16A.275. The Council has not written off any delinquent loans.*

The Minnesota legislature, in Minn. Stat. Section 116J.64, established the Indian Business Loan Program to provide Minnesota based Indians a portion of the financial resources needed to start or expand a business enterprise in Minnesota through the issuance of low interest loans. Funds for the program are derived from taxation of severed mineral interests held by individuals, corporations, or organizations in Minnesota. The taxes are collected by the counties and remitted to the Minnesota Department of Revenue. The Department of Revenue transfers the appropriate amount to the Minnesota Indian Affairs Council for the Indian Business Loan Program. The loan program operates as a revolving fund. The severed minerals taxes and loan repayments are recorded in this fund.

Available loan money is allocated annually among the reservations. Indians interested in applying for a loan through this program must submit an application to the Council, which in turn sends it to the appropriate tribal council for approval or disapproval.

Table 4-1 provides a summary of financial activity of the Indian Business Loan Program for the four fiscal years ended June 30, 1995. The fund balance available as of June 30, 1995 is \$878,191.

**Table 4-1**  
**Indian Business Loan Program**  
**Summary of Financial Activity**

	Fiscal Years Ending June 30			
	1992	1993	1994	1995
<b>Indian Business Loan Program:</b>				
Beginning Cash Balance	\$555,896	\$692,732	\$801,714	\$778,397
Sources:				
Loan Principal and Interest	\$148,345	\$98,062	\$47,858	\$ 63,616
Severed Minerals Taxes	92,134	90,881	86,391	161,564
Total Sources	\$240,479	\$188,943	\$134,249	\$225,180
Expenditures:				
Indian Business Loans	\$50,556	\$63,022	\$153,639	(1) \$84,822
Payroll	48,102	15,810	2,715	37,464
Admin. Expenses	4,985	1,129	1,212	(1) 3,100
Total Expenditures	\$103,643	\$79,961	\$157,566	\$125,386
Ending Cash Balance	\$692,732	\$801,714	\$778,397	\$878,191
Outstanding Loans Balance	\$658,583	\$612,233	\$749,629	\$726,102

Note: (1) Includes encumbrances as of June 30, 1995.

Source: Revenue and expenditure transactions recorded in the statewide accounting system and the Indian Business Loan General Ledger from July 1, 1991 to June 30, 1995.

## Minnesota Indian Affairs Council

We focused our review of the Indian Business Loan Program on the following objectives:

- Does the Minnesota Indian Affairs Council have policies and procedures to ensure that loans are properly authorized, adequately supported, and accurately recorded?
- Does the Council deposit loan repayments promptly in accordance with Minn. Stat. Section 16A.275?
- Does the Council properly and accurately record loan repayments and severed minerals tax receipts in the Indian Business Loan Revolving Fund?
- Does the Council appropriately write off delinquent Indian business loans?

During our audit, we gained an understanding of the Indian Business Loan Program cycle through interviews with key personnel. We performed a review of new loans issued during the audit period. We performed a review of repayments and tested postings to the general ledger and subsequent deposits. We performed a review of the severed minerals tax receipts.

The Council has established policies and procedures to ensure that loans are properly authorized, processed, and recorded. The Council has properly recorded loan repayments and severed minerals taxes into the Indian Business Loan Fund. However, as discussed below, the Council does not promptly deposit receipts to the state treasury in accordance with Minn. Stat. Section 16A.275. The Council has not written off any delinquent loans.

### **2. The Council is not depositing Indian Business Loan Program receipts on a timely basis.**

Minn. Stat. Section 16A.275 provides in part that "an agency shall deposit receipts totaling \$250 or more in the state treasury daily." Currently, there is a delay in the deposit of Indian loan repayments. For example, a check received on June 27, 1994 for \$1,566 was not deposited until July 5, 1994. Checks received on May 18, 1994 for \$1,219 were not deposited until May 24, 1994. Borrowers send monthly repayments to the Council office in St. Paul. Currently, the repayments are endorsed when received but deposits are only made on Fridays.

#### *Recommendation*

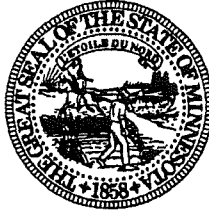
- *The Council should deposit all receipts into the state treasury when they accumulate to \$250 or more.*

### **3. The Council is not writing off delinquent Indian business loans.**

Delinquency in the repayment of Indian business loans have consistently been a problem for the Council. A Council's loan holders status report as of July 15, 1995 showed an outstanding loan balance of \$724,633. The Council considers a loan delinquent if no payment has been received for 90 days. The loans classified as 90 days past due amounted to \$250,651 and those listed as out of business or bankrupt amounted to \$165,132.

#### *Recommendation*

- *The Council should work with the reservation tribal council's and the Attorney General's Office to resolve loans in delinquent status, particularly those loans shown as out of business or bankrupt. Uncollectible loans should be written off in accordance with applicable guidelines.*



State of Minnesota  
**INDIAN AFFAIRS COUNCIL**

1450 Energy Park Drive  
West-Room 140  
St. Paul, Minnesota 55108  
Phone: (612) 643-3032  
Fax: (612) 643-3077

October 18, 1995

1819 Bemidji Avenue  
Bemidji, Minnesota 56601  
Phone: (218) 755-3825  
Fax: (218) 755-3739

Mr. Tom Donahue  
Audit Manager  
State of Minnesota  
Office of the Legislative Auditor  
Veterans Service Building  
St. Paul, MN 55155

Dear Mr. Donahue:

The following represents the Mn Indian Affairs Council response to your draft findings and recommendations of our financial audit for the four fiscal years ending June 30, 1995 and our discussion of those findings at an exit interview on October 17, 1995.

1. The Council did not establish a contract with a soil scientist providing professional/technical services.

There have been instances when the Council has had to respond to "Emergency situations", accidental uncovering of human remains during development and/or excavation of sites; since there was only one soil scientist certified to examine, map and identify suspected cemetery sites, often times this consultant was called upon to be at specific locations on an emergency basis. We are presently working with the State Archaeologist on getting this type of specialized vocation on a more manageable schedule which includes definite time limits and specified dollar amounts.

2. The Council is not depositing Indian Business Loan receipts on a timely basis.

The Council had been without a permanent Executive Director for about a year which meant the two person staff at the St. Paul office were called upon to exercise more responsibility than usual, therefore deposits were made once a week. This practice has now been eliminated; deposits are entered directly into the computer and appropriate information sent to the State Treasurers office in a more timely manner.

3. The Council is not writing off delinquent Indian Business Loans.

The Loan Officer is working with the Attorney General's office to determine which loans should be written off and this process will be carried out during this fiscal year.

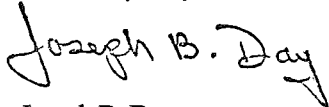
We would like to express our appreciation to Carl Otto, CPA for his cooperation throughout this audit.

October 18, 1995, Tom Donahue, Legislative Auditor;

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If there is anything further that our agency can do relative to these recommendations, please call me at 218-755-3825.

Yours very truly,

A handwritten signature in cursive script that reads "Joseph B. Day". The signature is written in dark ink and is positioned above the printed name and title.

Joseph B. Day  
Executive Director