Lola and Rudy Perpich
Minnesota Center For Arts Education

Selected Scope Financial Audit
For the Three Years Ended June 30, 1995

September 1996

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Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

96-37

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

STATE OF MINNESOTA
OFFICE OF THE LEGISLATIVE AUDITOR
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Representative Ann H. Rest, Chair
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Board of Directors of the Lola and Rudy Perpich
Minnesota Center for Arts Education

Members of the Board of Directors of the Lola and Rudy Perpich
Minnesota Center for Arts Education

Dr. David O'Fallon, Executive Director
Lola and Rudy Perpich Minnesota Center for Arts Education

We have audited the Lola and Rudy Perpich Minnesota Center for Arts Education (center) operations for the three years ended June 30, 1995, as further explained in Chapter 1. Our audit scope included receipts, payroll, contracts, grants, and selected administrative expenditures. Therefore, we emphasize that this has not been a complete audit of all programs of the center. 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 center complied with provisions of laws, regulations, contracts, and grants that are significant to the audit.

This report is intended for the information of the Legislative Audit Commission and the management of the center. This restriction is not intended to limit the distribution of this report, which was released as a public document on September 13, 1996.

We thank the center staff for their cooperation during this audit.

James R. Nobles
Legislative Auditor

John Asmussen, CPA
Deputy Legislative Auditor

End of Fieldwork: July 5, 1996

Report Signed On: September 6, 1996

SUMMARY

State of Minnesota
Office of the Legislative Auditor
Centennial Office Building • St. Paul, MN 55155
612/296-4708

Lola and Rudy Perpich Minnesota Center For Arts Education

Selected Scope Financial Audit For the Three Years Ended June 30, 1995

Public Release Date: September 13, 1996 No. 96-37

Agency Background

The Lola and Rudy Perpich Minnesota Center for Arts Education (center) is located in Golden Valley, and offers a high school curriculum for artistically talented students. The center also oversees the operation of a resource center for improving arts education in Minnesota. The executive director of the center is David O'Fallon. A resource center advisory council and board of directors provide input on matters affecting resource center programs and operations.

The center recorded financial transactions on its own accounting system and the statewide accounting (SWA) system. The center had revenues and expenditures of approximately $5.3, $5.6, and $5.9 million during fiscal years 1993, 1994, and 1995, respectively.

Selected Audit Areas and Conclusions

We focused our review of revenues on the center's control over cash collections and the proper identification of receipts on the accounting systems. The center continued to lack adequate accounting information to support student billings, refunds, and escrow account balances. In addition, the center did not properly control food service cash collections. These issues were also cited as problems in our prior audit report.

Our review of expenditures focused on determining if: internal controls were adequate, expenditures were properly recorded, and expenditures were reasonable and in compliance with applicable guidelines. The center's controls were adequate to ensure that disbursements were recorded properly on the state's accounting system, reasonable, and in compliance with established guidelines. However, the center should improve controls over reporting of payroll, leave, contract administration, grant reporting deadlines, and imprest cash reconciliations. The center also should establish a process to identify and resolve potential conflicts of interest. These issues, with the exception of contract administration and grant reporting deadlines, also were cited as problems in our prior audit report.

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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
Warren Bartz, CPA	Audit Manager
Ken Vandermeer, CPA	Audit Director
Mary Annala, CPA	Audit Senior
Scott Tjomsland,	Auditor
Marina Mirman,	Auditor

Exit Conference

The issues in this report were discussed with the following staff of the Lola and Rudy Perpich Minnesota Center for Arts Education on August 21, 1996:

Dr. David O'Fallon	Executive Director
Barbara Martin	Deputy Director
Robert Raiolo	Accounting Supervisor
John Engel	Program Analyst
Dawn Syverson	Graphic Arts Specialist

Chapter 1. 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. The 1996 Legislature added Lola and Rudy Perpich to the name of the center. 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 to junior and senior level students 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 Lola and Rudy Perpich Minnesota Center for Arts Education is Dr. David O'Fallon.

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 buses. The Department of Administration oversees the lease agreement.

The center receives a state appropriation to fund its operations each year. Funding also results from federal grants and various fees collected by the center. Table 1-1 summarizes the center's financial activity for fiscal years 1993 to 1995.

Table 1-1
Summary of Financial Activity
Fiscal Years 1993 to 1995

	1993	1994	1995
Sources of Funds:			
State Appropriations	$5,057,000	$5,240,000	$5,274,000
Dedicated revenue	279,399	377,591	617,102
Total Sources of Funds	$5,336,399	$5,617,591	$5,891,102
Expenditures:			
Payroll	$2,663,615	$2,781,215	$2,931,927
Grants	798,521	1,018,335	1,180,053
Contracts	454,690	438,742	371,354
Other Administrative Expenditures	1,337,097	1,264,846	1,405,032
Total Expenditures	$5,253,923	$5,503,138	$5,888,366

Source: Statewide Accounting System Estimated/Actual Receipts Reports and Managers Financial Reports as of September 8,1993; September 4, 1994; and October 14, 1995.

Chapter 2. Revenues

Chapter Conclusions

The center continued to lack adequate accounting information to support student billings, refunds, and escrow account balances. In addition, the center did not properly control food service cash collections. These issues were also cited as problems in our prior audit report.

The Lola and Rudy Perpich Minnesota Center for Arts Education (center) receives a state appropriation each year to fund its operations. The center limits enrollment to 300 students per year and provides housing to approximately 60 percent of the students, referred to as residential students. The remaining 40 percent of the student body commute. The center has the authority to collect various fees from both residential and commuter students. For instance, the center requires students to pay a $50 nonrefundable activity fee each year to cover activities sponsored by the school. Residential students also pay a refundable dorm damage deposit of $150 and an emergency fee of $50 each year. The center collected a residential meal fee for breakfast and dinner of $850, $950, and $1,050 in fiscal years 1993, 1994, and 1995, respectively, but provided free or reduced fees to students that qualified. The center also collected other miscellaneous fees as noted in Table 2-1.

Table 2-1
Summary of Revenue
Fiscal Years 1993 to 1995

	Amount
Revenue Sources:	
Gifts/donations	$ 13,113
Seminars/workshops	16,875
Music fees	17,212
Graduation fees	17,823
Activity fees/nonrefundable deposits	107,845
Residential fees	533,674
Other miscellaneous revenue	567,674
Total Sources of Revenue	$1,274,092

Source: Statewide Accounting System Estimated/Actual Receipts Reports as of September 8,1993; September 4, 1994; and October 14, 1995.

The center deposits receipts into the state treasury and records the summary level data on the state's accounting system. However, the authority to establish and collect fees requires proper accounting on an individual student basis. Accordingly, the center uses a separate in-house computer system to record the financial activity of each student.

We focused our review of revenues on the following objectives:

- Did the center properly control cash collections?
- Did the center properly identify receipts on its own and the state's accounting system?

Prior audits of the center had identified deficiencies in internal controls over revenues. Our review disclosed that the prior audit recommendations were partially implemented. The center improved accountability of student fees and deposits by creating separate accounts based on the type of fees deposited. However, it lacked adequate accounting information to support the activity recorded for each student. The center improved controls over food service receipts by acquiring the daily cash register tapes and comparing them to the cash collections. However, it did not implement the recommendation to reconcile accumulative sales totals to actual cash collections. Findings 1 and 2 address these control weaknesses.

1. Prior Finding Partially Resolved: The center lacked adequate accounting information to support student billings, refunds, and escrow account balances.

The center's accounting system did not properly record all receipts and disbursement postings. The center uses the accounting system to record student financial activity, including various refundable and non refundable fees from students. The center also pays expenses for students' meals, medical emergency needs, and miscellaneous activities. At the end of each year, the only balances remaining in refundable escrow accounts are supposed to be for returning senior students. The center also recorded the balances on the statewide accounting (SWA) system .

During fiscal years 1993 through 1995, the center made various changes to its accounting system. Some changes resulted in posting errors to the student account history. The posting errors, in turn, resulted in a lack of documentation to support refunds paid to students. The escrow account balances for returning students also were unsupported, and we were unable to obtain assurance that the center collected all accounts receivable due from students.

Without proper supporting documentation, we could not determine if the center properly calculated refund payments. The center based its calculation on temporary records maintained to supplement or update the main accounting system. Since the center did not retain those temporary records for our review and did not reconcile to SWA records, we could not determine their reliability. For example, we found two duplicate payments totaling $373 that the center had not detected. An accounting system with adequate controls over account postings would provide the center with the necessary controls to detect duplicate payments. A reconciliation of the center's accounting system to the SWA system also would provide control over posting errors.

Recommendations

- *The center should reconcile student account history postings to state accounting records to ensure the accuracy and integrity of the system.*

- *The center should seek repayment of the two duplicate payments.*

2. Prior Finding Partially Resolved: The center did not properly control food service cash collections.

The center did not compare cash collections to cash register tapes and cumulative sales totals. The center contracts with the Vikings Food Service to provide food and beverages services. Students pay meal fees to defray the cost of the contract. Vikings staff work in the center and collect any cash sales or over-the-counter receipts. Vikings staff record the cumulative sales totals and submit a log of the totals with the cash register tapes and cash receipts. The cash register tapes also record the cumulative sales totals.

Center staff deposit receipts in the state treasury and reconcile cash collections to the cash register tapes. However, center staff do not use the cumulative sales totals to verify the calculation of cash sales. Effective controls over cash collections require that the daily cash register tape readings and the change in accumulative totals agree with cash deposited. Without these controls, the center cannot ensure that Vikings staff submitted the proper amount of receipts recorded as sales. We found discrepancies during the prior audit, but no revenue was determined to be uncollected during the current audit period.

Recommendation

- *The center should improve control over food service revenue by comparing receipts collected to the cumulative totals recorded on the log and the cash register tapes.*

Chapter 3. Expenditures

Chapter Conclusions

The center's controls over expenditures were adequate to ensure disbursements were recorded properly on the SWA system, reasonable, and in compliance with established guidelines. However, the center could improve controls over reporting of payroll leave, contract administration, grant reporting deadlines, and imprest cash reconciliations. The center also should establish a process to identify and resolve potential conflicts of interest.

Table 1-1 summarizes the major categories of expenditures of which payroll is the largest. The center disburses payroll funds for faculty, administrative, accounting, and support service personnel. The contract area addresses disbursements for professional and technical services provided to the center. Grant programs provide funding for summer workshops, financial assistance to school districts, and professional development funding to individual teachers and artists. Other administrative expenditures include disbursements for food service costs and imprest cash disbursements.

Our review of expenditures focused on three common objectives:

- Were internal controls over expenditures adequate?
- Did the center properly record expenditures on the state's accounting system?
- Were expenditures reasonable and in compliance with applicable guidelines?

We considered prior audit findings in the process of establishing our audit objectives. The center appropriately resolved prior issues for faculty who claimed state wages while conducting workshops and receiving compensation from other employers. Controls over contracts were improved by more accurately specifying consultant duties and by justifying the selection of contractors. Improvements over grant controls included approving significant changes to budgets and matching contribution levels.

However, some prior issues remained unresolved. For instance, the payroll system did not properly reflect faculty release time; the center had no formal process to monitor conflicts of interest for board members, employees, contractors, and grantees; and the center did not adequately control imprest cash for student activities.

Our review indicated that the center recorded expenditures properly on the SWA system. We also noted that expenditures were reasonable and in compliance with established guidelines. However, the center could improve controls over several types of expenditures. We discuss these control weaknesses in the subchapters for payroll, grants, contracts, and other administrative expenditures. The discussion for each subchapter will include any prior audit recommendations that remain unresolved.

Payroll

The center spent $8,376,757 on payroll costs, or 50 percent of total expenditures, in fiscal years 1993 through 1995. Table 3-1 shows the breakdown of these expenditures by earnings type.

Table 3-1
Payroll Expenditures
Fiscal Years 1993 to 1995

Earnings Type	FY 93	FY 94	FY 95
Classified Employees	$748,431	$770,797	$839,717
Unclassified Employees	1,840,220	1,871,798	1,913,702
Overtime	26,979	34,677	30,279
Severance/Vacation Payoff/Relocation	26,085	57,244	23,295
Other	21,900	46,699	124,934
Total	$2,663,615	$2,781,215	$2,931,927

Source: Statewide Accounting System Managers Financial Reports as of September 8,1993; September 4, 1994; and October 14, 1995.

We reviewed payroll procedures and addressed the following objectives:

- Were payroll expenditures properly authorized, adequately supported, accurately processed, and properly reported?
- Were payroll expenditures, including faculty payroll, reasonable and in compliance with applicable laws and regulations?

The methodology we used to audit payroll transactions included interviewing staff to gain an understanding of the payroll process. We also reviewed and analyzed certain earning types for reasonableness. Furthermore, we selected a sample of payroll transactions and performed tests to verify accuracy and compliance with applicable legal provisions.

We concluded that the center properly authorized, adequately supported, accurately processed, and properly recorded its payroll. Expenditures were reasonable and in compliance with applicable laws and regulations. The only exception noted pertained to the reporting of faculty paid release time. Finding 3 discusses how the center should record faculty paid release time on timesheets.

3. Prior Finding Not Resolved: The center did not properly record paid release time for faculty on the payroll system.

Faculty timesheets did not contain an explanation when paid release time occurred. We noted that substitute teachers were hired on dates when faculty timesheets showed regular hours worked. We were unable to determine the reasons for the faculty's paid release time, because an explanation for the hiring of substitute teachers was not recorded.

A prior audit issue addressed the lack of explanations for paid release time on faculty timesheets. During the previous audit, faculty participated in professional development or training and posted the time as regular hours worked. The absence of an explanation weakened controls over payroll, since all absences were not accounted for, either as leave or paid training. Once faculty isolate all hours absent, center management can evaluate the appropriateness of compensated release time when leave has not been taken.

Recommendation

- *The center should document justification for hiring substitute teachers.*

Contracts

The center utilizes various vendors who provide professional and technical contract services. Professional and technical services typically provide the center with short-term consulting, instructional, technical, or administrative assistance. The center has expanded local purchase authority of $1,500. The center must process purchases over $1,500 through the Materials Management Division of the Department of Administration. Contracts over $5,000 require approval by the Department of Administration.

The center empowers its directors to initiate the procurement of contract services. The center's accounting section makes payments to vendors for contract services after receiving invoices authorized by the directors. The center uses its computer system to log the status of contracts. Each director monitors the status of the contract through the computer. This provides an additional control over account activity.

Our specific objectives were as follows:

- Did contracts adequately describe the duties and services provided?
- Did the center comply with contract guidelines, laws, and regulations?
- Did the center properly enforce contract stipulations?
- Does a process exist to identify and resolve potential conflicts of interest?
- Did the center record professional and technical services fairly in all material respects on the SWA system?

We conducted testing to determine if the center supported transactions with written contracts and documentation of a bidding process. We also tested compliance with contract limits and proper authorization. We examined all vendors who received $5,000 or more in payments each fiscal year. We also selected a sample of vendors who received less than $5,000 in payments each year. We compared expenditure documentation with board members' statement of economic interest and contributions for potential conflicts of interest. We also searched for evidence of any potential conflicts of interest for both current and former employees.

Contracts adequately described the duties and services provided. However, we found that the center incurred services prior to the authorization of a written contract. Contract stipulations were properly enforced; however, the center did not follow a written policy to identify and resolve potential conflicts of interest for employees and board members.

4. Contract administration needs improvement.

The center did not obtain the necessary signatures on contracts prior to the effective start date of the contract. We reviewed all payments to vendors who received over $5,000 in total contract payments in any given fiscal year. Our review encompassed 48 vendors, some of whom received payments under more than one contract. We found 31 contracts, under $5,000, that had not been authorized prior to the date of service. All 31 contracts, totaling $49,103, were for professional and technical services that required authorizations from only the center's staff. Authorization from oversight agencies, such as the Department of Administration, was not required on any of the 31 contracts we reviewed.

Minn. Stat. Section 16A.15, Subd. 3 requires that funds be encumbered prior to obligation by the state agency. Services rendered prior to obtaining the signature of all parties obligates the state without proper authorization. When this occurs, the Department of Finance requires the agency to document justification in a letter commonly referred to as a "Chapter 16A letter." Although Chapter 16A letters may justify the reasons for contract delays, agencies are to use them only in unique situations. The use of Chapter 16A letters is not to become routine.

Recommendation

- *The center should improve contract management by authorizing contracts before work begins and obligations are incurred.*

5. Prior Recommendation Partially Resolved: A process to identify and resolve potential conflicts of interest does not exist.

The center did not require board members, advisory council members, and employees to disclose potential conflicts of interest on an annual basis. Minn. Stat. Section 10A.09 requires board and advisory council members to file statements of economic interest and contributions with the Board of Ethical Practices. However, the center did not obtain copies of this information. Employees were not required to file economic interest statements, but the center required them to declare potential impairments on a regular basis. Known affiliations existed between board members, employees, contractors, and grant recipients. Some organizations that receive center grant funds employ board and advisory council members. Grantee organizations also employ center staff to teach workshops. 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 remain active in the arts community and encounter grant proposals from organizations with which they affiliate. 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, the center grants funds to two arts organizations that also employ a board member. The center indicated that these members usually excused themselves from portions of board meetings when the agenda included grant proposals from their respective organizations. The minutes indicated the board members' acknowledgment of the conflict. However, the center has not followed a formal policy of identifying and resolving members potential conflicts of interest.

Current employees of the center are also active in the arts community. One center employee works for two other vendors that receive a total of five different grants from the center. In prior audits, center employees claimed regular hours worked or sick leave taken when they were instructing workshops for other organizations during those hours. The practice presented a conflict of interest violation for those employees that the center failed to resolve. We did not identify such violations during our current review of employee timesheets. However, we cannot be certain that violations did not occur because the center does not actively identify and resolve potential conflicts. The center needs to enforce a formal policy to ensure that members and employees do not use their official positions to influence the selection and approval of grants to organizations that employ them.

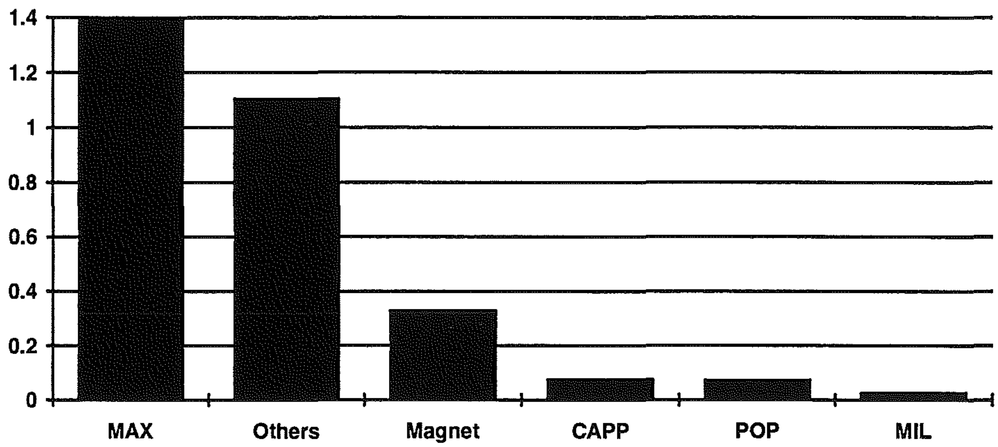
Recommendation

- *The center should require the reporting of potential conflicts when employees are hired and board members appointed, and thereafter on an annual basis.*

Grants

The center disbursed grants under several programs: (1) Minnesota Arts Experience (MAX), (2) Magnet Schools, (3) Comprehensive Arts Planning Program (CAPP), and (4) Professional Opportunities Program (POP). In addition, the center funded other smaller programs and even provided a mileage reimbursement program (MIL) for commuter students in fiscal year 1993. Figure 3-1 illustrates the percentage of funding disbursed by program in fiscal years 1993, 1994, and 1995.

Figure 3-1
Breakdown of Grant Funding By Program
Fiscal Years 1993 to 1995
(In Millions)



Source: Statewide Accounting System Manager's Financial Reports as of September 8, 1993; September 4, 1994; and October 14, 1995.

Footnote: MIL program was for fiscal year 1993 only.

We addressed the following objective:

- Did the center properly enforce grant agreement stipulations?

To address this objective, we interviewed program and accounting staff, documented the application and disbursement process, and gained an understanding of the controls in place to monitor grant stipulations. We tested the monitoring process to determine if the center controlled grantee budget changes and matching requirements. Our review consisted of seven MAX grants, three MIL grants, two CAPP grants, and two POP grants.

We determined that the center did not enforce deadlines specified in grant agreements for submission of final reports. Finding 6 discusses this issue in more detail.

6. The Center has not adequately controlled funds granted to local organizations.

The center did not enforce deadlines specified in grant agreements for submission of final reports. The deadline for submission of final reports varied by program. MAX grants required a final report within six weeks of the last follow-up session. Magnet grants were due by mid-June each year, and CAPP grants were due at the end of each fiscal year. For POP grants a final written report was to be submitted within 60 days of completing grant activities. A complete final report included a narrative summary of experience, relevant products or materials, final budget comparison, and a summary of receipts. The tardiness of reports varied from 10 to 60 days. However, at the time of our audit, one report was seven months late. The center used these reports to verify compliance with the grant stipulations.

The center granted approximately $3 million to local educational and arts organizations in fiscal years 1993 to 1995. The grantee organizations provided budget proposals to the center for review and approval. Grants generally required a minimum ten percent in-kind or cash match to ensure a financial commitment to the project. After approving and paying the grant, the center required a final financial report from the organization or other recipient to assess the results of the project. The center required grantees to report budget and actual expenditure categories for the grant funds and local match portion.

Without timely submission, the center cannot ensure that grantees complied with grant program requirements. If the center does not enforce reporting deadlines, grantees that do not comply with the grant stipulations may remain undetected. This may result in failure to achieve the intended purpose of the grant program.

Recommendation

- *The center should strengthen controls over grants by enforcing deadlines for the submission of final reports.*

Other Administrative Expenditures

The center also disbursed payments for travel, supplies, fixed assets, imprest cash reimbursements, food service, and other miscellaneous areas. As shown in Table 1-1, the total expenditures for this area were $4,006,975 for fiscal years 1993 to 1995. We performed analytical procedures for administrative expenditures to evaluate any trends in specific account classes throughout the audit period. We tested expenditures for the imprest cash of $17,596 and for food service of $557,249 for the three fiscal years 1993 to 1995. Imprest cash and food service expenditures comprise only 14 percent of the total other administrative expenditure area. Those areas had audit findings from our prior audit.

Our review addressed the following questions:

- Were payroll charges for food service reasonable?
- Were controls over imprest cash adequate?
- Were disbursements properly coded on the state's accounting system?

To address these objectives, we reviewed the payments made to the food service vendor and analyzed the controls over the invoices submitted by the vendor. We also reviewed the imprest cash expenditures, which represent disbursements for various student activities. We performed a cash count and reconciliation to the authorized limit to determine if the center properly accounted for the funds.

We found the controls over the food service expenditures were adequate for payroll and other costs. However, the imprest cash controls were weak, due primarily to the lack of review performed on supporting documentation. The center did not document reconciliations to the bank account for the imprest cash account, which contributed to the lack of control. The center did properly code disbursements for both food service and imprest cash account expenditures. Finding 7 discusses the imprest cash controls.

7. Prior Finding Partially Resolved: Imprest cash controls were weak.

Accounting staff did not require submission of receipts and invoices as support for imprest cash reimbursement requests. Also, the center did not document reconciliations of the bank account to the checkbook and authorized limit of the imprest cash accounts.

The center utilized two imprest checking accounts, residential and commuter, to pay for various student activities. The authorized limit for each account is $1,000. Two student service directors maintained the checkbooks and documentation to support their reimbursement requests. The two accounts receive funding from receipts collected from a student activity fee of $50 for each student. The center disbursed funds from the checking accounts and reimbursed the accounts periodically from the student fee deposits. However, the accounting section did not require the student service directors to submit receipts and invoices to support the reimbursement requests. Without a review of the supporting documentation, the center cannot attest to the validity of the transactions.

The center also weakened control over the account by not documenting reconciliations of the bank account to the checkbook balance and the authorized limit of the imprest cash accounts. Errors in the account may occur and remain undetected unless the center reconciles the financial activity. Center staff told us that the account was reconciled, but did not retain documentation that showed the reconciliation occurred.

Recommendation

- *The accounting section should review supporting documentation for all expenditures from the imprest cash accounts and document reconciliations on a monthly basis.*

MINNESOTA CENTER for ARTS EDUCATION

Arts High School • Resource Programs

innovative public education centered in the arts

leadership for arts education in MN

September 5, 1996

James R. Nobles, Legislative Auditor
John Asmussen, Deputy Legislative Auditor
Office of the Legislative Auditor
Centennial Building
658 Cedar Street
St. Paul, MN 55155

Dear Messrs. Nobles and Asmussen:

Enclosed please find the Center for Arts Education's response to the recently completed audit for the three fiscal years ending June 30, 1995.

Your staff was extremely helpful and responsive to the Center's needs and questions during their time on-site. We very much appreciate their feedback on strategies to enhance the accountability of our fiscal systems and instructional programs.

Sincerely,

David O'Fallon

David O'Fallon, Ph.D.
Executive Director

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Minnesota Center for Arts Education
Agency Response
Legislative Audit for Years July 1, 1992-June 30, 1995

Chapter 2. Revenues

1. *Prior Finding Partially Resolved:* The center lacked adequate accounting information to support student billings, refunds, and escrow account balances.

Response: In an effort to maintain an improved and more comprehensive history of student financial records, the center has incorporated more detailed year end functions into its accounting procedures. The procedures calculate year-end balances and create associated transaction records. These records are then used for further calculations of graduating students' refunds which, in turn can be reconciled with the Minnesota accounting and procurement system (MAPS). Previous student history records are maintained in a history file. Upon completion of the student refund process, the only remaining escrow account balances are for returning seniors. All non-refundable fees are zeroed out. This method insures proper posting of student refunds and provides supporting documentation in the form of transactions and associated reports.

Another item cited in the audit report was the lack of numbered receipts for incoming student deposits. This procedure is currently being examined. With further clarification from the audit team, the center plans to implement an appropriate process to fulfill this recommendation. The initial plan involves direct entry into the student information system at the point of receipt. At that time, a receipt will be printed for the student. All receipt numbering will be maintained and assigned by program coding, and receipt reporting will be used for bank deposit reconciliation.

Additional student information system modifications have also been implemented that will provide clearer and more accurate data in all aspects related to student accounting functions.

The center is seeking repayment of the two duplicate student refund payments (totalling $373) that the auditors discovered during the auditing process.

2. *Prior Finding Partially Resolved: The center did not properly control food service cash collections.*

Response: The center has always verified that the food service cash register tape equaled the cash submitted for deposit each day. However, the center was not aware of the daily cumulative sales totals (Z-total) on the tape and, as such, did not verify this number. Now that the center has been made aware of the significance of the Z-total, it will compare the cash register tape total for the day with the difference between each day's Z-total to verify that they are the same. If the totals equal, the funds will be deposited in the state treasury. If not, the center will request an explanation from the food service staff and make a notation on the deposit log for the day.

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Payroll

3. Prior Finding Not Resolved: The center did not properly record paid release time for faculty on the payroll system.

Response: The center has made significant improvement in its recording of faculty paid release time during the course of this audit (July 1, 1992 - June 30, 1995). Of the forty full and part-time faculty, two were cited during this period for failing to properly record professional development, training or other paid release time on their timesheets. The faculty's supervisor has been reminded of the need for appropriate documentation of staff absences. Additionally, payroll and support staff who process the paperwork that supports the disbursement of payments to substitute teachers and issuance of payroll checks has been asked to develop a procedure to assure that there are cross-checks in place to identify and rectify the absence of appropriate payroll documentation for teacher absences.

Contracts

4. Finding: Contract administration needs improvement.

Response: The center has authority to process professional services contracts under $5,000 internally. There appears to be some misunderstanding among staff that the encumbering of funds for the contract constitutes final execution of the contract, rather than the attainment of all required signatures -- those of the contractor, initiator, program director and deputy or executive director. To correct the problem of work being commenced prior to final execution of the contract document, the center is doing the following: providing additional technical training to initiating and processing staff, encouraging longer-range planning among program directors to provide sufficient lead time for processing, and making some structural changes to contract administration that would reduce last-minute contract initiation, yet provide greater flexibility for managing contractors' schedules with instructional schedules, especially in the arts high school program.

5. Prior Recommendation Partially Resolved. A process to identify and resolve potential conflicts of interest does not exist.

Response: The Center does have a conflict of interest policy, developed and approved by its board of directors in 1993, following the release of the legislative auditor's 1993 report. Board members are extremely cognizant of potential conflicts and, as a matter of policy, declare the conflict when appropriate, do not participate in the discussion surrounding the approval of a grant that may relate to an organization with which they have or have had an affiliation, and do not vote on those grant approvals. These declarations are recorded in board minutes. To improve the implementation of the conflict of interest policy the Center will do the following on an annual basis:

* Copies of board members' economic interest statements will be obtained from the Ethical Practices Board and kept on file in the Executive Director's office.

* Board members will complete an internally generated conflict of interest form which will be kept on file in the Executive Director's office.

* Employees will complete an internally generated conflict of interest form which will be kept on file in the Center's personnel office.

Additionally, the following steps will be taken:

* Upon employment, new employees will be required, as part of the initial personnel processing, to complete a conflict of interest form which will be updated thereafter on an annual basis.

* Organizations seeking grant funds from the Center will be required to disclose if any Center staff or board members receive payments from the grantee for instructional, technical or other services to be rendered as part of the grant, and the dates on which those services are delivered.

* Center administrative staff will continue to monitor as part of the contract initiation process, which contains a conflict of interest component, employee declarations of conflict and refer them to the Deputy Director for review and resolution.

Grants

6. Finding: The Center has not adequately controlled funds granted to local organizations.

Response: Several steps will be taken to enforce submission deadlines of final reports for the Center's granting programs:

* Application guidelines will be examined to ensure that language relative to expectations and dates for submitting final reports is clear.

* Final report deadlines will be included in grant language.

* Program coordinators will communicate on an on-going basis these firm deadlines to grantees during the granting period. They will also inform the grantee that if there are extenuating circumstances which will not allow them to meet the required deadline, grantee must request an extension in writing from the program coordinator.

* Based on each program's structure, other control and incentive options will be explored, such as increasing the percent of grant monies withheld pending submission of a final report, restructuring disbursements based upon a reimbursement schedule, forfeiture of final payments, and /or prohibition from participation in future funding rounds.

Other Administrative Expenditures

7. Prior Finding Partially Resolved: Imprest cash controls were weak.

Response: Each time the imprest cash account is reimbursed, an imprest cash reimbursement form is completed. That form lists all checks which were written and cash payments issued to assure that the reimbursement does not exceed the authorized limit of $2,000. In the past, however, receipts to verify these disbursements have been maintained by the student services coordinator in charge of the imprest cash account. In the future, it will be required that these receipts accompany the imprest cash reimbursement form given to the accounting officer to provide more comprehensive documentation of expenditures.

The Center has always reconciled imprest cash bank statements to the checkbook on a monthly basis. Because the reconciliation usually involves only one or two outstanding checks at a time, the accounting officer has been able to complete the reconciliation through visual calculation. In the future, however, the accounting officer will complete the written reconciliation form which accompanies the bank statement.

*** End ***