

Council on Asian-Pacific Minnesotans

Financial Audit

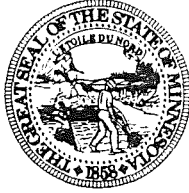
For the Four Years Ended June 30, 1996

April 1997

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Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

97-19



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

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Council on Asian-Pacific Minnesotans

Members of the Council on Asian-Pacific Minnesotans

Lee Pao Xiong, Executive Director
Council on Asian-Pacific Minnesotans

We have audited the Council on Asian-Pacific Minnesotans for the period from July 1, 1992, through June 30, 1996, as further explained in Chapter 1. Our audit scope included a review of grants and other receipts, payroll, and professional and technical services. The following Summary highlights the audit objectives and conclusions. We discuss these areas more fully in the individual chapters of this report.

We conducted our audit in accordance with generally accepted government auditing standards and *Government Auditing Standards*, as issued by the Comptroller General of the United States. Those standards require that we obtain an understanding of management controls relevant to the audit. The standards require that we design the audit to provide reasonable assurance that the Council on Asian-Pacific Minnesotans complied with provisions of laws, regulations, contracts, and grants that are significant to the audit. The management of the Council on Asian-Pacific Minnesotans is responsible for establishing and maintaining the internal control structure and complying with applicable laws, regulations, contracts, and grants.

This report is intended for the information of the Legislative Audit Commission and the management of the Council on Asian-Pacific Minnesotans. This restriction is not intended to limit the distribution of this report, which was released as a public document on April 18, 1997.

James R. Nobles
Legislative Auditor

John Asmussen, CPA
Deputy Legislative Auditor

End of Fieldwork: January 31, 1997

Report Signed On: April 11, 1997

SUMMARY

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Council on Asian-Pacific Minnesotans

Financial Audit For the Four Years Ended June 30, 1996

Public Release Date: April 18, 1997

No. 97-19

Agency Background

The primary mission of the Council on Asian-Pacific Minnesotans is to promote the social, economic, and political development of Minnesota's Asian-Pacific community. The council consists of 19 members from the Asian-Pacific community appointed by the Governor and four ex-officio members appointed from the Legislature. Albert de Leon served as the council's executive director from its inception in 1985 until his retirement in December 1994. Lee Pao Xiong was appointed and began serving as executive director in July 1995.

Audit Areas and Conclusions

Our audit scope included a review of gifts and grants, payroll, and contractual services for the period July 1, 1992, to June 30, 1996.

We concluded that the council did not account for and administer its grants properly. Certain council grant accounts still have balances remaining, even though the grants have expired. Also, funds from a nonprofit organization are commingled with the council's funds.

We also concluded that payroll transactions were properly authorized and recorded, adequately supported, and processed in accordance with applicable bargaining agreements. However, we found one instance where an employee's timesheet did not reflect actual hours worked.

Generally, we found that payments were within the terms of the contracts, were properly recorded on the state's accounting system, and complied with applicable legal compliance requirements tested. However, we found that the council failed to amend two contracts resulting in overpayments of \$1,462.99. We also found that three contractors began working before their contracts had been properly approved.

Council on Asian-Pacific Minnesotans

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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
Jeanine Leifeld, CPA	Audit Manager
Dale Ogren, CPA	Auditor-in-Charge
Matt Hoffer	Auditor

Exit Conference

We discussed findings and recommendations with the following staff of the Council on Asian-Pacific Minnesotans at the exit conference held on March 19, 1997:

Lee Pao Xiong	Executive Director
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Council on Asian-Pacific Minnesotans

Chapter 1. Introduction

The Minnesota Legislature established the Council on Asian-Pacific Minnesotans in 1985 pursuant to Minn. Stat. Section 3.9226. The primary mission of the council is to ensure that Asian-Pacific Islanders living in Minnesota are incorporated into the governmental and policy making process; that they have better access to state government services; that the talents and resources of the Asian-Pacific community be used and promoted where appropriate; and to assist others in their contact with Asian-Pacific people living in Minnesota. Asian-Pacific Islanders represent the largest ethnic minority group in Minnesota. Approximately 113,000 Asian-Pacific Islanders, representing over 40 Asian ethnic groups, reside in the state. Minnesota's Asian-Pacific population is expected to increase to 219,000 by the year 2000.

Pursuant to statute, the Department of Administration provides the council with administrative services, including entering receipt, payroll, and disbursement transactions into the state's accounting system. Table 1-1 summarizes the significant financial activity of the council for fiscal years 1993 through 1996.

Table 1-1
Summary of Financial Activity
Fiscal Years 1993 through 1996

	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>
Sources:				
Operating Appropriations	\$174,000	\$201,000	\$200,000	\$198,000
Ombudsman Appropriation (1)	0	20,000	10,000	0
Transfers and Balances In	136,898	153,839	174,700	113,962
Gifts and Grants	57,468	41,347	20,029	160
Other Sources	<u>0</u>	<u>0</u>	<u>1,281</u>	<u>2,250</u>
Total Sources	<u>\$368,366</u>	<u>\$416,186</u>	<u>\$406,010</u>	<u>\$314,372</u>
Uses:				
Payroll	\$147,551	\$163,021	\$ 97,948	\$ 98,280
Contractual Services	26,972	9,954	23,011	9,981
Other Administrative Expenditures	67,351	58,585	71,890	41,425
Transfers and Balances Out	125,136	184,626	150,552	164,686
Cancelations	1,356	0	62,609	0
Total Uses	<u>\$368,366</u>	<u>\$416,186</u>	<u>\$406,010</u>	<u>\$314,372</u>

(1) Ombudsman for Families included in the council's activities for fiscal year 1994, but not included in fiscal years 1995-96.

Source: Revenue and expenditure transactions recorded in the state's accounting system from July 1, 1992, to June 30, 1996.

By statute, the council has 23 members. The council consists of 19 members from the Asian-Pacific community which are appointed by the Governor and four ex-officio members appointed from the Legislature. No more than one member of each ethnic Asian-Pacific heritage group is represented on the council. The council holds bi-monthly public meetings.

Albert de Leon served as the council's executive director from its inception in 1985 until his retirement in December 1994. Lee Pao Xiong was appointed and began serving as executive director in July 1995. The council office consists of four full-time employees including the executive director, an office manager, and two research analysts.

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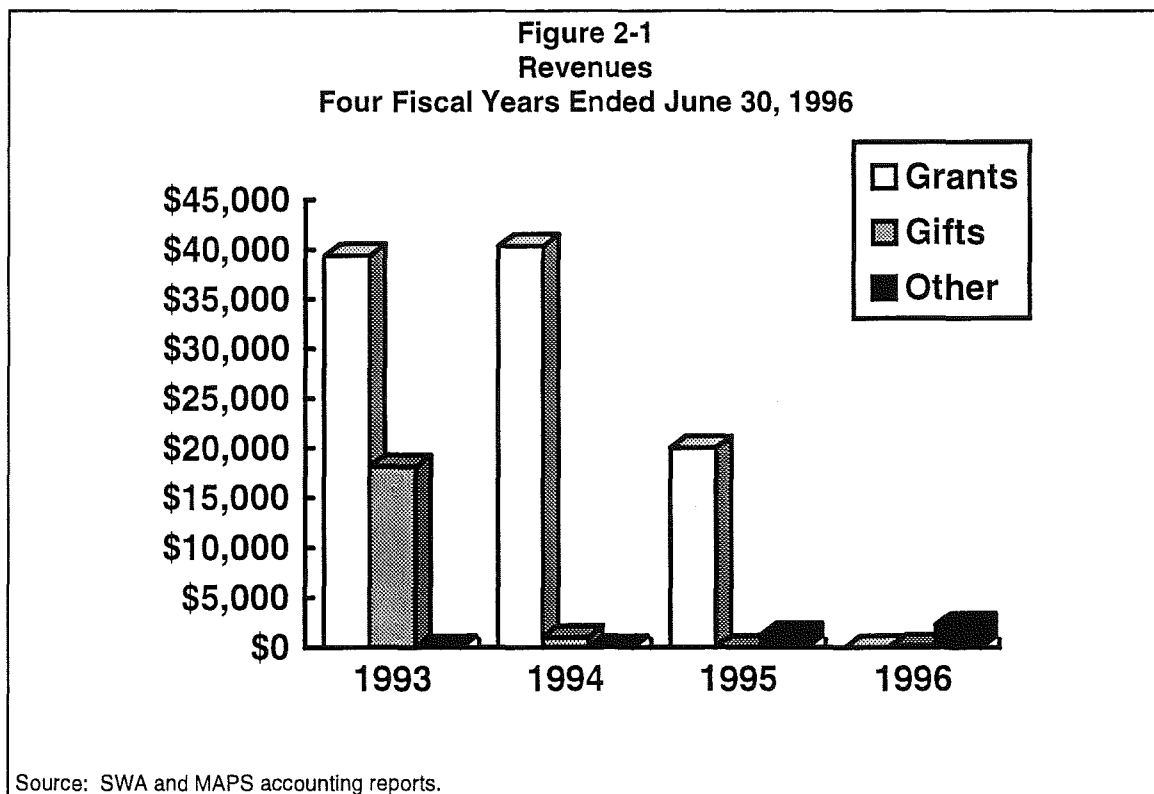
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Chapter 2. Gifts and Grants

Chapter Conclusions

The council did not account for and administer its grants properly. Certain council grant accounts still have balances remaining, even though the grants have expired. Also, funds from a nonprofit organization are commingled with the council's funds.

Figure 2-1 shows the trend in total gifts, grants, and other receipts over the four year audit period from July 1, 1992, through June 30, 1996.



The above analysis shows a dramatic decrease in revenue over the audit period. Even though the council continues to receive a HIV/STD prevention grant through the Department of Health, it no longer actively seeks out grants and other sources of revenue. Instead, the council's philosophy now is to function as a channel between the Asian community and organizations offering resources. As a result, the council is not competing against Asian community organizations for available grant money, but rather serves as a resource for those organizations in obtaining grants.

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We focused our review of grants and other receipts on the following objectives:

- Were receipts deposited promptly in accordance with Minn. Stat. Section 16A.275?
- Were receipts accurately recorded on SWA and MAPS?
- Are grants and gifts appropriate and used for their intended purpose?

To address these objectives, we interviewed key department employees, reviewed applicable policies and procedures, and tested representative samples of grants and receipts.

We found that the council did not account for and administer its grants properly. Certain council grant accounts still have balances remaining, even though the grants have expired. Also, funds from a nonprofit organization are commingled with the council's funds. As noted below, we first brought these issues to the attention of the council during our last audit and have found them to be unresolved.

1. PRIOR FINDING NOT RESOLVED: The council did not properly administer certain grants.

The council has remaining balances relating to two grants that should have been completed about three years ago. One grant, a \$35,000 chemical dependency education grant, came through an interagency agreement with the Department of Human Services. The other grant, a \$49,400 HIV/STD prevention grant, came through an interagency agreement with the Department of Health. The grants were due to expire on September 30, 1993, and December 31, 1992, respectively. The Department of Administration, on behalf of the council, set up two accounts for each grant: one account in the federal fund and one account in the gift fund.

All four of the accounts relating to these two grants still have balances which have been carrying forward every year. In fiscal year 1996, the council carried forward chemical dependency balances of \$23,615 in the federal fund and \$4,595 in the gift fund. The council carried forward HIV/STD grant account balances of \$5,435 in the federal fund and \$38,698 in the gift fund.

Records at the Departments of Human Services and Health indicate that the council had completed the grants and spent all of the grant funds. Grant expense reports filed by the council to the two departments indicated that all of the grant funds had been used. However, these reports were not based on actual accounting activity shown in the state's accounting system. For example, an expense report for the chemical dependency grant for the month of September 1993, indicated that the council spent \$26,779 from the chemical dependency grant that month. However, the state's accounting system indicates that only \$304 was spent from the grant during that month, a difference of over \$26,400 for that month alone.

Both grants were paid on a reimbursement basis. The council sent the expense reports to the related department for reimbursement, but neither department required the council to send copies of invoices as proof that actual expenditures took place. The Departments of Human Services and Health transferred grant money into the council's grant accounts when the council did not

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actually charge related expenditures to the grant accounts, resulting in a positive balance in the accounts.

It is also possible that the council coded invoices incorrectly resulting in other money, possibly operating money from the General Fund, being used to pay for grant activity. If the Departments of Human Services and Health reimbursed the council's grant accounts when the council used money from other accounts to pay for grant expenses, a positive balance in the grant account would result.

Recommendations

- *The council and the Department of Administration should review past accounting records to determine the exact amount of grant money remaining. They should review expenditures from other accounts to verify that valid grant expenditures were not charged to other accounts.*
- *The council should work with the Department of Health and the Department of Human Services to dispose of balances remaining in accounts established for grant agreements which have expired.*
- *The council should work with the Department of Administration to develop and maintain an accounting system designed to accurately account for future grant activity.*

2. PRIOR FINDING NOT RESOLVED: The council continues to hold funds on behalf of a nonprofit corporation.

The council is holding an estimated \$19,292 on behalf of the Asian American Chamber of Commerce. The council incorporated the Asian American Chamber of Commerce in January 1990. Although the chamber of commerce was a separately incorporated nonprofit organization, the council provided them with full accounting and administrative support. In our prior audit report, we concluded that the council's relationship with the chamber of commerce was an improper one, and recommended that the council delineate its role from the chamber. The council has since attempted to sever all ties with the chamber of commerce. However, it appears that the chamber is not currently operating. As a result, the council still holds an estimated \$19,292 from the chamber of commerce which continues to be commingled with the council's funds within the state treasury.

Recommendation

- *Unless the council can establish that a non-state entity has a valid claim for the residual funds, it should cancel the \$19,292 to the state's General Fund.*

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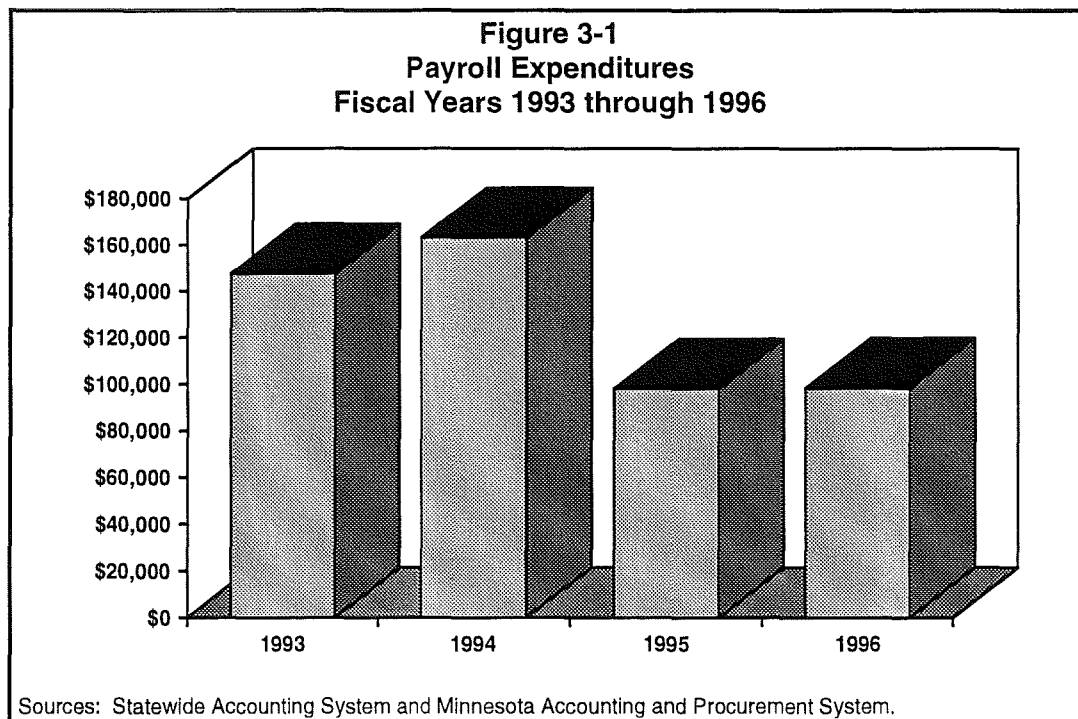
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Chapter 3. Payroll

Chapter Conclusions

Payroll transactions were properly authorized and recorded, adequately supported, and processed in accordance with applicable bargaining agreements. However, we found one instance where an employee's timesheet did not reflect actual hours worked.

As of December 31, 1996, the Council on Asian-Pacific Minnesotans had four employees. The staff currently consists of an executive director, a research analyst, a management analyst, and one office manager. The Department of Administration provides the council with administrative support and payroll processing. The Department of Administration also converted the council's payroll from the former state payroll system to the state's new payroll and personnel system, SEMA4 in October 1995. Figure 3-1 shows payroll expenditures over the four year audit period.



In fiscal year 1995, the council experienced a high amount of turnover. The council operated without an executive director, research analyst, or community liaison representative from January 1995 to June 1995. This turnover caused the council's payroll to drop from \$163,021 in fiscal year 1994 to \$97,948 in fiscal year 1995. The current executive director began working in July 1995 and a new research analyst began working in May 1996. The council hired a fourth

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employee in November 1996. With the addition of this employee, the council's fiscal year 1997 payroll should reach or exceed its fiscal year 1994 totals.

Our review of payroll focused on the following questions:

- Did the council pay employees at the proper amounts according to applicable bargaining agreements?
- Was time worked, leave requested and accrued adequately documented and approved?
- Did the council properly process and record severance payments?

Our methodology for addressing these audit objectives included inquiries, analytical reviews, and sampling. We interviewed accounting staff to gain an understanding of the payroll process. We tested a sample of pay periods, reviewing all timesheets, leave requests, and employee files to ensure that council payroll transactions were properly authorized, adequately supported, and accurately recorded.

Generally, we found that payroll transactions were properly authorized and recorded, adequately supported, and processed in accordance with applicable bargaining agreements. However, we found one instance where an employee's timesheet did not reflect actual hours worked.

3. One employee did not accurately reflect time worked on a timesheet.

The council attempted to allow an employee to carry over more vacation time to the next fiscal year than the employee's bargaining agreement would allow. The executive director entered into an agreement with the employee to approve timesheets for two payroll periods showing 40 and 80 hours of annual leave taken, even though the employee did not actually take leave during either pay period. The agreement stipulated that the employee would get credit for the time worked and that she could apply the hours towards a vacation at a later date.

For the pay period ending June 11, 1996, the employee reported 40 hours of annual leave taken, 9 hours of compensatory time taken, and a leave donation of 4 hours. After considering the additional leave earned during the pay period, the employee's leave balance dropped from 358.25 to 321.25. Even though the leave was reported on the employee's timesheet for that pay period, the employee actually worked a normal 80 hours during the pay period.

After we determined the agreement to be invalid, the employee began to properly reflect the hours worked. The employee properly took and reported 56 hours of annual leave during the pay period ending June 25, 1996, and 64 hours of annual leave during the pay period ending July 9, 1996. As of June 25, 1996, the employee's annual leave balance was 272.25, and as of July 9, 1996, the balance was 215.25. The employee was never compensated for the annual leave reported but not taken for the pay period ending June 11, 1996.

The agreement was an attempt to circumvent the employee's bargaining agreement which limits the amount of leave the employee can carry forward from one fiscal year to another. According to the Association of Federal, State, County, and Municipal Employees (AFSME) bargaining

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agreement, all employees have to decrease their vacation balances to below 260 hours at least one point during the fiscal year. The employee told us that, due to the high level of turnover among council staff, the employee had not been able to take a vacation earlier. From January to June of 1996, the employee was the only person employed by the council. In order to prevent the employee from losing vacation hours, the executive director approved timesheets that misrepresented the actual hours worked.

Recommendation

- *The council should comply with employee bargaining agreements relating to time worked and annual leave.*

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Chapter 4. Contractual Services

Chapter Conclusions

Generally, we found that payments were within the terms of the contracts, were properly recorded on the state's accounting system, and complied with applicable legal compliance requirements tested. However, we found that the council failed to amend two contracts resulting in overpayments of \$1,462.99. We also found that three contractors began working before their contracts had been properly approved.

The main funding sources for the council's contracts were interagency agreements with the Departments of Human Services and Health, as well as the council's General Fund appropriations. Table 4-1 summarizes the council's 21 professional and technical service contracts over the four fiscal year audit period.

Table 4-1
Summary of Contractual Services
Fiscal Years 1993 through 1996

<u>Fiscal Year</u>	<u>Purpose</u>	<u>Number of Contracts</u>	<u>Amount</u>
1993	Foster Care	1	\$ 8,205.45
1993	AIDS Prevention	3	11,096.38
1993	Chemical Dependency	2	3,584.19
1993	Fiscal Agent (1)	1	3,800.00
1993	Miscellaneous	3	<u>285.59</u>
Sub Total			\$26,971.61
1994	Foster Care (2)	1	\$ 9,592.80
1994	Miscellaneous	3	<u>360.84</u>
Sub Total			\$ 9,953.64
1995	Foster Care (2)	1	\$11,876.80
1995	Chemical Dependency	5	8,822.00
1995	Miscellaneous	1	<u>2,312.65</u>
Sub Total			\$23,011.45
1996	Report to Legislator/Governor	1	\$ 9,338.90
1996	Miscellaneous	2	<u>642.41</u>
Sub Total			\$ 9,981.31

(1) Payment represents the council's final obligation as a fiscal agent (see prior audit report).

(2) These amounts do not include overpayments to the contractor for travel and subsistence (see Finding 2).

Source: Expenditure transactions recorded in the Statewide Accounting System and Minnesota Accounting and Procurement System from July 1, 1992, to June 30, 1996.

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Our review of professional and technical service contracts focused on the following questions:

- Did the council follow contract policies and procedures, including applicable legal requirements?
- Did the council properly record contractual services expenditures in the state's accounting system?
- Were contractual expenditures proper and reasonable?

Our methodology for addressing the audit objectives over professional and technical service expenditures included inquiries, reviewing payments, and interviewing key personnel. We performed testing to verify that payments were accurate and supported by properly executed contracts, as well as properly recorded on the state's accounting system.

We found that the council paid one contractor \$1,462.99 more than the contract amount. We also found that three contractors began working before their contracts had been properly approved.

4. The council paid one contractor more than the contract amount.

In two instances, the council paid a contractor more than the contract allowed. The council hired the contractor to provide foster care programs for fiscal years 1993, 1994, and 1995. In fiscal year 1994 the contractor received reimbursements for travel and subsistence that exceeded the contract amount by \$371.20. In fiscal year 1995, the contractor received payments for wages and travel and subsistence that exceeded the contract amount by \$1,091.79 (\$356.80 in wages and \$734.99 in travel and subsistence reimbursements). The reimbursements for travel and subsistence were not applied against the contract in the state's accounting system. Instead, the council coded the travel and subsistence reimbursements to a separate encumbrance. Payments made to the contractor for fiscal year 1993 were within the contract limits.

The source of funds for this contract was an interagency agreement with the Department of Human Services. This agreement stipulated a budget for salaries and travel and subsistence. The agreement with Human Services allowed for expenditures of \$20,000 for fiscal years 1994 and 1995. In fiscal year 1994 and 1995 the agreement provided \$9,900 and \$11,870, respectively, for travel and subsistence. However, the council's contract with the contractor stated that total expenditures should not exceed \$9,600 in 1994 and \$11,520 in 1995. Although the council could have made amendments to the contract with the contractor or sought approval from Human Services for more funds, we saw no evidence that the council requested a contract amendment.

Recommendation

- *The council should adhere to the terms specified in the contracts or amend the contracts when it is required.*

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5. The council managed certain professional and technical contracts inappropriately.

Contrary to state law, the council authorized contractors to begin work before the contract was executed. Contractors initiated services before funds were encumbered with three of the six contracts tested. Minn. Stat. Section 16A.15, Subd. 3, specifies that an agency may not incur obligations until funds are encumbered. Two of the instances were with the same contractor. One contract began on January 1, 1992, and ended December 31, 1992. The Attorney General, Commissioner of Administration, and the Commissioner of Finance did not approve the contract until January 29, 1992. However, the contractor billed the council \$240 for services beginning on January 7, 1992. In another instance, this contractor provided services on another contract from May 18, 1992, to December 31, 1992. The Attorney General, Commissioner of Administration, and the Commissioner of Finance did not approve the contract until July 13, 1992. However, the contractor billed the council \$960 for services beginning on June 1, 1992.

Recommendation

- *The council should not allow contractors to begin providing services until contracts are properly approved and funds are encumbered.*

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STATE OF MINNESOTA
Council on Asian-Pacific Minnesotans

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March 28, 1997

Jeanine Leifeld, CPA
Audit Manager
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658 Cedar Street
St. Paul, Minnesota 55155-4708

Dear Ms. Leifeld:

I want to thank you for allowing the Council on Asian-Pacific Minnesotans to respond to your audit finding. I will address each item, issue by issue, and what steps the Council has taken to resolve it.

1. Under Gifts and Grants, your office found that the Council did not account for and administer its grants properly. To this point, the Council has sat down with the Department of Administration over the last several months to go through our contracts and grants one by one to see if invoices were being paid from the right grants/contracts. Through our inquiry, we found that many of the invoices submitted by the Council to the Department of Administration for payments were either paid from the wrong grants/contracts or wrong line items. This was particularly true of the grant/contract with the Department of Health.

As with the Department of Human Services (DHS) contract, I have had several benefit conversations with our contact person at DHS to try to extend the terms and conditions of the contract. The representative at DHS indicated that it would not be necessary since their record shows that the project is done and over with. As such the Council should just proceed on with the unfinished portion of the project.

In order for the Council to prevent similar incident from happening with future grants, we have taken several steps to account for all funds. Staff working on projects are now assigned project code. Furthermore, they are required to keep and record all time spent on particular projects. Instructions are also clearly given to Department of Administration's staff on where funds should be taken out of. Staff at the Council now reviews all monthly financial reports from the Department of Administration to reconcile all recorded expenses.

As to the issue with the Asian-American Chamber of Commerce, the Council on Asian-Pacific Minnesotans' board voted in June 1995 to separate the Asian-American Chamber of Commerce from the Council, as recommended by the Legislative Auditor's office. In July 1995, I forwarded a memorandum to our contact person on fiscal matters at the Department of Administration requesting that he contact the chair of the Asian-American Chamber of Commerce to make arrangement for the transfer of fund to the Chamber.

When I found out that the fund had not been transferred, I investigated and found that the Chamber had been inactive for some time. To transfer the fund to an inactive agency would be questionable. As a result, I along with the Chair of the Council met with the Chair of the Chamber and tried to work out arrangement where we can transfer the fund. The Council has been working with this agency to try to resolve this issue. It is anticipated that by September, all fund would be transferred.

2. Your office found one instance where an employee's timesheet did not reflect actual hours worked. This issue relates to one of the Council's employee's vacation hours. For more than six months, the Council was without an executive director and support staff. As a result, this employee was the only staff at the Council's office. If she was to take a vacation, that would mean that the Council would have to close the office. As a result, the employee had no choice but to continue working.

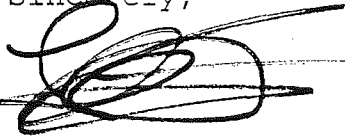
When your staff learned of this arrangement, he recommended that we contact Department of Employee Relations to see if we can get a waiver for the employee due to the circumstances. I made more than three calls to the Department of Employee Relations and followed up with a letter explaining the situation and asked to see if the Council's employee could get a waiver (we were told that this could be done). None of the calls were returned and no written responses were received. Your staff also left messages with the staff and supervisor responsible for the waiver and did not get a response either.

3. Your report indicated that the Council failed to amend two contracts resulting in overpayments of \$1,462.99. Most requests for payments were approved by the Department of Human Services before we expended the fund.

Steps have been taken to prevent future problems from occurring. All expenses are now approved by the executive director. Furthermore, as mentioned earlier, all projects are assigned project codes to ensure that all expenditures are appropriately billed and expended.

Again, the Council appreciates the opportunity to respond to some of your office's findings. I hope our responses clarified some of the points raised by your findings. If you have any questions, please feel free to call me at (612) 296-0533. Thank you.

Sincerely,



Lee Pac Xiong
Executive Director

Encl.

cc: Adeel Z. Lari, Chair
Council on Asian-Pacific Minnesotans