

Council on Black Minnesotans

Financial Audit

For the Four Years Ended June 30, 1996

June 1997

*This document can be made available in
alternative formats, such as large print,
Braille, or audio tape, by calling 296-1727.*

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

97-33



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

Senator Deanna Wiener, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Ms. Dolores Fridge, Chair
Council on Black Minnesotans

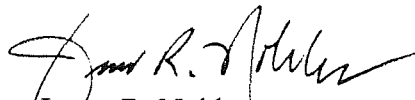
Members of the Council on Black Minnesotans


Mr. Lester Collins, Executive Director
Council on Black Minnesotans

We have audited the Council on Black 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 gifts and grants, payroll, contracts and other purchased services, printing, rent, and travel expenditures. 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 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 also require that we design the audit to provide reasonable assurance that the Council on Black Minnesotans complied with provisions of laws, regulations, and contracts that are significant to the audit. The management of the Council on Black Minnesotans is responsible for establishing and maintaining the internal control structure and compliance 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 Black Minnesotans. This restriction is not intended to limit the distribution of this report, which was released as a public document on June 27, 1997.


James R. Nobles
Legislative Auditor


John Asmussen, CPA
Deputy Legislative Auditor

End of Fieldwork: April 9, 1997

Report Signed On: June 24, 1997

SUMMARY

State of Minnesota
Office of the Legislative Auditor
1st Floor Centennial Building
658 Cedar Street • St. Paul, MN 55155
(612)296-1727 • FAX (612)296-4712
TDD Relay: 1-800-627-3529
email: auditor@state.mn.us
URL: <http://www.auditor.leg.state.mn.us>

Council on Black Minnesotans

Financial Audit

For the Four Years Ended June 30, 1996

Public Release Date: June 27, 1997

No. 97-33

Agency Background

The Council on Black Minnesotans was established under the authority of Minn. Stat. Section 3.9225. The council's mission is to provide all individuals of African descent with equal access to state services and programs and to relate the needs of these individuals to the Legislature. The council consists of eleven members appointed by the Governor and four ex-officio members appointed from the Legislature. The council employs three full-time and one part-time staff. Lester Collins is the council's executive director.

Audit Scope and Conclusions

Our audit scope included a review of gifts and grants, payroll, contracts and other purchased services, printing, rent, and travel expenditures for the period from July 1, 1992, through June 30, 1996.

We found that the council properly recorded its receipts in the state's accounting system. However, we found that the council did not deposit some gift receipts timely, as required by law.

The council spent its state appropriations within its limits and statutory authority. The council accurately paid and recorded payroll, rent, contractual services, printing, and travel expenditures. However, we found the council did not document its compliance with certain legal requirements when setting up some contracts and did not follow state procedures for certain special purchased services.

Council on Black Minnesotans

Table of Contents

	Page
Chapter 1. Introduction	1
Chapter 2. Gifts and Grants	3
Chapter 3. Administrative Expenditures	5
Agency Response	9

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
Fubara Dapper, CPA	Auditor-in-Charge
Steve Johnson	Auditor

Exit Conference

We discussed findings and recommendations with the following staff of the Council on Black Minnesotans at the exit conference held on June 5, 1997:

Lester Collins	Executive Director
Elvira Barnes-Wycough	Senior Planner

Chapter 1. Introduction

The Council on Black Minnesotans was established under the authority of Minn. Stat. Section 3.9225. The council's mission is to provide all individuals of African descent with equal access to state services and programs and to relate the needs of these individuals to the legislature. The council is essentially a public research and planning agency, advocating on specific issues. Specific functions of the council include monitoring government and private sector programs to determine their impact on black Minnesotans, operating as a liaison between state agencies, individuals, and organizations seeking access to state government. The council also publicizes the accomplishment of black Minnesotans and their contributions to the quality of Minnesota life. In addition, the council recommends new laws or changes in existing laws that may benefit black Minnesotans.

The council consists of eleven members appointed by the Governor and four nonvoting members from the Minnesota Senate and House of Representatives. The council meets at least eight times per year, with an annual meeting usually held in December. Approximately four public hearings/community meetings are conducted each year on issues affecting black Minnesotans. All meetings are open to the public.

The council employs three full-time and one part-time staff. Lester Collins is the council's executive director.

The council is funded primarily through legislative appropriations. Pursuant to statute, the Department of Administration provides the council with administrative services. These services include entering payroll, receipt, and disbursement transactions into the state's accounting and payroll systems. Table 1-1 summarizes the council's financial activity for the audit period.

Council on Black Minnesotans

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

	Year Ended June 30			
	1993	1994	1995	1996
Sources:				
Operating Appropriations	\$200,000	\$220,000	\$220,000	\$229,000
Ombudsman Appropriations (1)	0	6,000	5,000	0
Grants and Gifts	63,520	9,750	30,970	16,353
Balances and Transfers In	36,776	56,647	25,221	4,496
Other	130	141	30	0
Total Sources	\$300,426	\$292,538	\$281,221	\$249,849
Uses:				
Payroll	\$176,453	\$182,486	\$153,845	\$164,925
Contractual Services	36,444	22,935	33,905	7,263
Rent	18,529	19,337	13,845(3)	24,385
Travel	11,065	15,734	16,573	11,182
Printing	25,149	7,373	9,787	1,875
Balances and Transfers Out	9,195	26,221	17,677	9,802
Other	23,460	18,448	31,298	19,877
Total Uses	\$300,295	\$292,534	\$276,930	\$239,309(2)

- (1) Ombudsman for Families included in the council's activities for fiscal year 1993-94, but not included in fiscal years 1995-96.
 (2) \$10,387 of the council's general operating appropriation remained unexpended for fiscal year 1996 as of January 1, 1997.
 (3) Fiscal year 1995 rent was decreased by a \$5,790.62 reimbursement by the Ombudsman for Families who occupied space in the council offices.

Note: Schedule does not include cancellations to the General Fund.

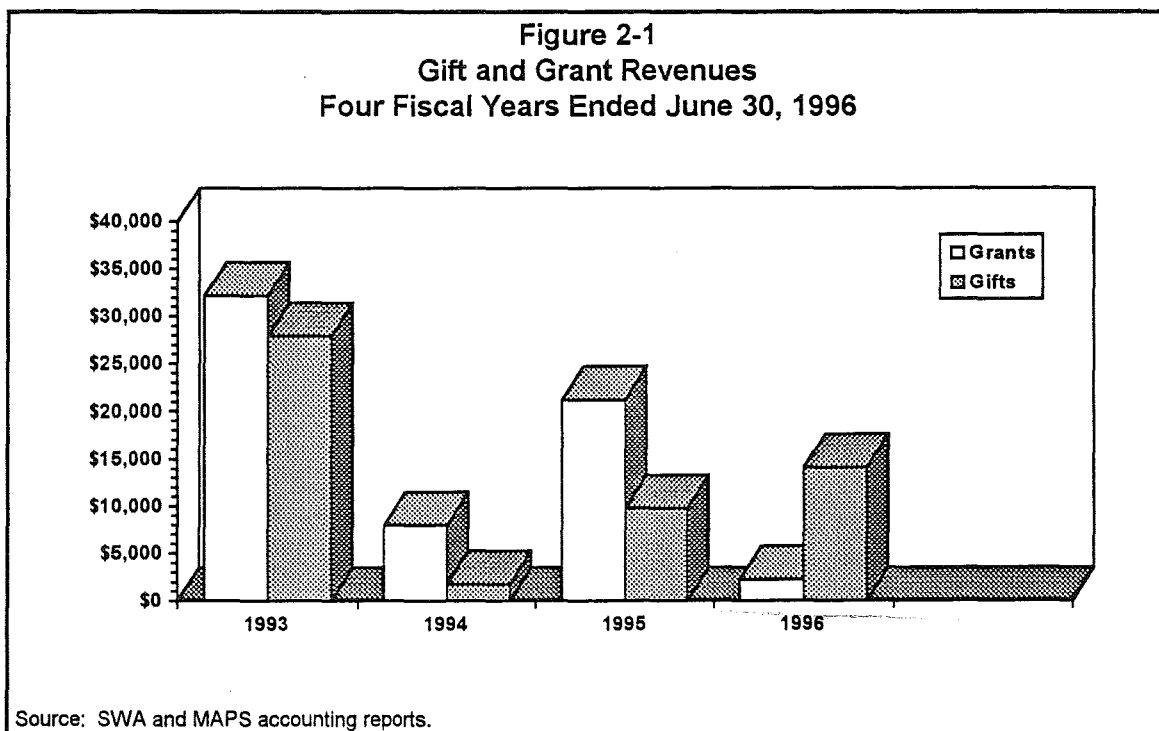
Sources: Statewide Accounting System Manager's Financial Reports as of close of books for fiscal years 1993, 1994, and 1995 and Minnesota Accounting and Procurement System totals for fiscal year 1996 as of June 30, 1996.

Chapter 2. Gifts and Grants

Chapter Conclusions

We found that the council properly recorded its receipts in the state's accounting system. However, we found that the council did not deposit some gift receipts timely, as required by law.

The council received, on average, about \$13,000 in gift revenue and \$14,000 in grant revenue per year throughout the audit period. The council received most of its grants from other state agencies. Private organizations and individuals provided the council's gift receipts for specific council activities, such as the Martin Luther King, Jr. holiday celebration. Figure 2-1 shows the trends in gifts and grants over the four-year audit period from July 1, 1992, through June 30, 1996.



We focused our review of revenues on the following objectives:

- Did the council properly record its receipts in the state's accounting system?
- Did the council deposit receipts timely, as required by law?

Council on Black Minnesotans

The methodology we used to audit gifts and grants included interviewing council staff and Department of Administration staff to determine how the council processed gifts and grants. We selected a sample of incoming checks and traced them to the state's accounting system and to the council's records. We found that the council properly recorded its receipts in the state's accounting system. However, as noted in Finding 1, the council did not deposit some gift receipts timely, as required by law.

1. The Council did not deposit some gift receipts timely.

The council did not deposit some gift receipts timely, as required by Minn. Stat. Section 16A.275. The statute requires agencies to deposit receipts totaling \$250 or more in the state treasury daily. We tested 41 deposits and found 10 deposits were not made timely. In one instance, the deposit was not made for over a month after the council received the check. The council sends its checks to the Department of Administration who, in turn, deposits them with the state treasury. The two agencies need to work out the details to ensure that deposits are made promptly.

Recommendation

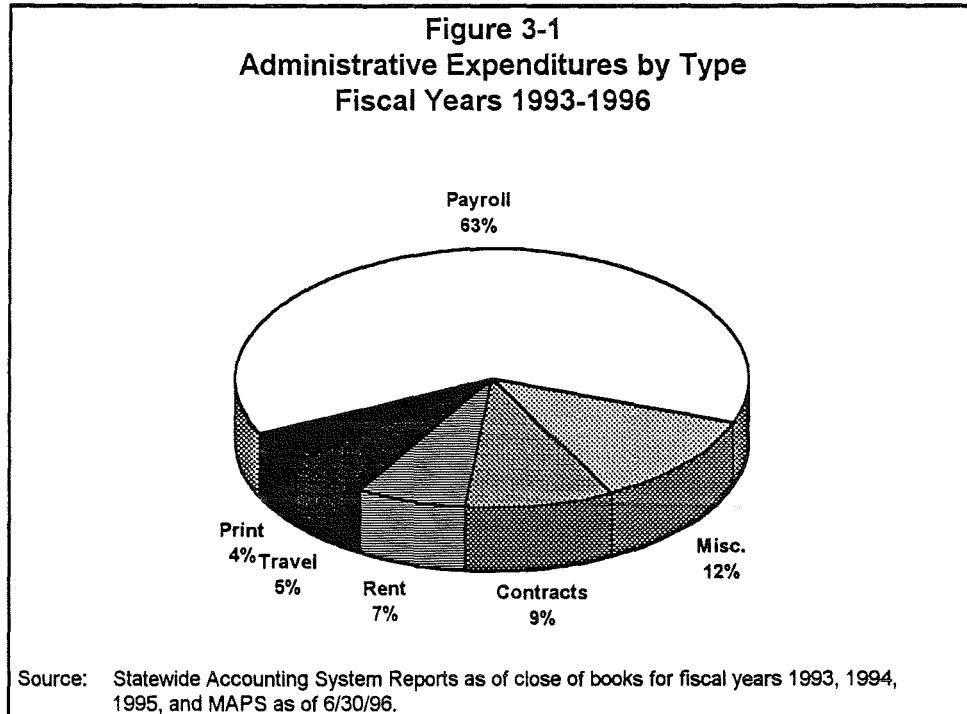
- *The council should deposit receipts totaling \$250 or more with the state treasury daily.*

Chapter 3. Administrative Expenditures

Chapter Conclusions

The council spent its state appropriations within its limits and statutory authority. The council accurately paid and recorded payroll, rent, contractual services, printing, and travel expenditures. However, we found the council did not document its compliance with certain legal requirements when setting up some contracts and did not follow state procedures for certain special purchased services.

Personnel services are the largest expenditures for the council, accounting for over 60 percent of total expenditures. The council's other significant administrative expenditure areas include contractual services, rent, travel, and printing costs. Figure 3-1 shows the council's significant administrative expenditure types for the four years ended June 30, 1996, and the percentage of each type to the council's total expenditures. During this audit, we focused on payroll, rent, contractual services, printing, and travel.



Generally, the council's executive director is responsible for approving all disbursements, including payroll. The Department of Administration then processes the council's payments through the state's accounting and payroll systems.

Council on Black Minnesotans

The methodology we used to audit payroll, rent, contractual services, printing, and travel expenditures included various audit techniques. We interviewed the council staff and the Administration staff to gain an understanding of the disbursement process. We reviewed and analyzed the council's financial data and tested selected administrative expenditure transactions. In addition, we performed analytical procedures to evaluate any trends throughout the audit period.

Payroll

The council employs three full-time and one part-time staff. The council spent about \$168,000 on payroll expenditures each year. Payroll is processed through the statewide payroll system on a biweekly basis.

We focused our review of payroll on the following objectives:

- Were council employees paid at the proper amounts according to the applicable bargaining unit agreements?
- Were payroll expenditures properly authorized, adequately supported, and accurately processed and reported on the state's payroll and accounting systems?

Our review of payroll expenditures concluded that the council's employees were paid at the proper amounts according to the applicable bargaining unit agreements. We found the council properly authorized, adequately supported, and accurately processed payroll expenditures.

Rent

The council office is located at the Wright Building in Saint Paul. The Department of Administration negotiated the space rental lease for the council. The rent was based on the usable square feet of space occupied by the council. Rent expenditures were about \$19,000 each year for the audit period.

We focused our review of rent on the following objectives:

- Were rent payments supported by properly executed rental contracts?
- Were rent payments in accordance with the rental contracts?
- Were rent payments recorded properly?

On the basis of the review of rent expenditures made throughout the audit period, we concluded that rent payments made by the council were supported by properly executed rental contracts. In addition, rent payments were made in accordance with the rental contracts and properly recorded.

Council on Black Minnesotans

Contracts and Other Purchased Services

The council used professional, technical, and other purchased services to carry out some of its activities.

We focused our review of contracts and other purchased services on the following objectives:

- Did the council follow state policies and procedures, including applicable legal requirements, for contracts and other purchased services expenditures?
- Did the council properly administer its contracts?

On the basis of the review of contracts made throughout the audit period, we concluded that the council did not document its compliance with certain legal requirements when setting up some contracts. As noted below, we first brought this issue to the attention of the council during our last audit and have found it to be unresolved. In addition, the council did not follow state procedures for special purchased services expenditures.

2. PRIOR FINDING NOT RESOLVED: The council did not document its compliance with certain legal requirements when setting up some contracts.

The council did not document that it complied with certain legal requirements for some of its contracts. Minn. Stat. Section 3.9225, Subd. 5, requires that contracts be approved by a majority of the members of the council and executed by the chair and the executive director. We tested five contracts and found no evidence in the board minutes that they were formally approved by a majority of the members of the council. The contracts were, however, executed by the council chair and the executive director, as required.

We also found that the council allowed certain contractors to begin working before finalizing contracts and encumbering the necessary funds. The council did not document that it complied with Minn. Stat. Section 16A.15, Subd. 3. The statute requires that there be sufficient funds in the accounting system before incurring obligations on any fund, allotment, or appropriation. It is important that the council ensures that sufficient funds are available before incurring obligations. This limits the liability of the state and clarifies the responsibilities of the contractor and the council.

Finally, the council was unable to locate documents supporting two contractual service payments. In one instance, the council was unable to locate a contract related to a \$1,450 payment to a consultant "in the area of strategic planning and design." The other payment was to the Attorney General's Office. Since the council was unable to locate the documentation for these payments, we were unable to determine whether the council followed proper procedures relating to the payments and whether the payments were reasonable.

Recommendations

- *A majority of the council should approve all contracts, as required by Minn. Stat. Section 3.9225, Subd. 5.*
- *The council should not allow contractors to begin work until contracts are complete and funds encumbered.*

Council on Black Minnesotans

3. The council did not follow state procedures for special purchased services expenditures.

The council did not have an approved special expense plan on file with the Department of Employee Relations. According to Department of Employee Relations Administrative Procedures 4.4, "special expenses are expenses incurred in connection with official functions of an agency . . . which are not reimbursable through the regular expense regulations." At the council, these types of expenses included items such as dinners and refreshments for council functions, entertainment sponsored by the council during cultural events, and transportation for visiting dignitaries. According to Administrative Procedure 4.4, the council must either have an approved special expense plan on file, citing the types of special expenses the council intends to incur, or must have individual expenses approved by the Department of Employee Relations as they occur. The council did not have an approved plan on file. Although the council completed requests for approval to incur special expenses, the council did not have those requests approved by the Department of Employee Relations.

Recommendation

- *The council should develop a special expense plan in accordance with Administrative Procedure 4.4 and submit it to the Department of Employee Relations for approval.*

Printing

The council used in-house and outside vendors to satisfy its printing need. The council's printing expenditures decreased throughout the audit period. In reviewing printing, we attempted to determine whether the council's printing expenditures were properly authorized and properly recorded. We concluded that printing expenditures were properly authorized and accurately recorded.

Travel

The state reimburses council members and employees for travel costs such as transportation, meals, and lodging while on council business.

We focused our review of travel expenditures on the following objectives:

- Were the employee expense reimbursements approved and adequately documented?
- Were the expenses reasonable and within the bargaining agreement limit?

Our review of travel expenditures found that expense reports were approved and adequately documented. We also found that travel expenses were reasonable and within bargaining agreement limits.



STATE OF MINNESOTA COUNCIL ON BLACK MINNESOTANS

Wright Building • Suite 426
2233 University Avenue • St. Paul, MN 55114 • (612) 642-0811 • 643-3580 FAX

June 23, 1997

Ms. Jeanine Leifeld
Audit Manager
Office of the Legislative Auditor
638 Cedar Street
St. Paul, Minnesota 55155

Dear Ms. Leifeld:

Please accept this response on behalf of the Council on Black Minnesotans to the comments and recommendations expressed in your draft audit report dated June 2 that covers the Council's operations for the four years ended June 30, 1996.

Before responding to the specific comments and recommendations in the draft report, we have a few general remarks. First, we were pleased to see that the current report reflects significant improvement in the Council's performance over the audit from four years ago, with correspondingly fewer corrective recommendations noted by your staff. Second, we were impressed by the thoroughness, professionalism, and courtesy displayed by your field personnel over their several months in our office last summer. Finally, we appreciate the opportunity to learn from the valuable advice that your office provides to improve our management practices and administrative procedures. Here are our specific responses to the audit report's conclusions and recommendations:

1. Gifts and Grants. The audit found that while the Council properly recorded its receipts in the state's accounting system, not all gifts to the Council were timely deposited over the four-year period.

The audit report recommends that the Council and the Department of Administration work out the details of a deposit system between them in order to assure timely deposit of receipts totalling more than \$250 daily. The Council believes that it has had an effective system in place for about the last three years. Although the audit report does not specify the dates of the noncompliant or untimely deposits, we believe that this problem dates from spring 1994 and earlier, when a new clerical employee unfamiliar with deposit procedures was handling this task. We also point out that once receipts are endorsed and forwarded by the Council to the

Ms. Jeanine Leifeld
June 23, 1997
Page two

Administration Department for deposit, the Council cannot control the timing of the actual deposit.

2. Contracts and Other Purchased Services. The audit report notes that while contracts were executed as required by the Council chair and executive director, the Council has not documented the approval of contracts by a majority of the Council. This finding represents an unresolved finding from the previous audit of the Council's operations. The audit report also notes that state procedures were not followed for special purchased services.

The Council will address the ongoing problem of noncompliant contract documentation at its meeting of July 8, 1997. Elvira Barnes-Wycough and the Council staff will prepare for presentation to the Council and its adoption a standard procedure for dealing with contractual matters, including a standard resolution form to facilitate documentation of majority approval. The Council will also take care to ensure that work under approved contracts does not begin until approval is obtained and documented, and funds are properly encumbered.

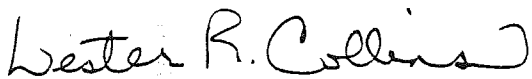
As a footnote to this finding, the Council points out that it has recommended to the legislature that Section 3.9225, subd. 3 be amended to relax the requirement that a majority of the Council approve all contracts. Because of the time sensitivity of some contractual services, it is not always practical, given its monthly meeting schedule and the occasional lack of a quorum, to require the full Council to deliberate and approve all contracts, especially those involving modest sums. Because no legislative change can be anticipated for at least a year, however, the Council will increase its efforts to resolve this finding in the manner set forth above, pending amendment to the Council's enabling statute.

As for the finding relating to special purchased services, such as expenditures for meals and refreshments for Council functions, or transportation for visiting dignitaries, the Council appreciates the audit report's recommendation that a special expense plan be prepared, thereby saving the trouble of obtaining separate approvals for each such expenditure. The Council's current practice was adopted at the recommendation of the Department of Administration. Elvira Barnes-Wycough and the Council staff will develop a special expense plan with reference to Administrative Procedure 4.4 for presentation to the Council for adoption or further action at its meeting of July 8.

Ms. Jeanine Leifeld
June 23, 1997
Page three

We appreciate your office's recommendations, and will implement them as quickly as possible.
Thank you for this opportunity to respond to the draft audit report.

Sincerely,

A handwritten signature in cursive script that reads "Lester R. Collins". The signature is written in dark ink and is positioned above the printed name and title.

Lester R. Collins
Executive Director

cc: Ms. Dolores Fridge, Chair