

Minnesota State Council on Disability

Financial Related Audit

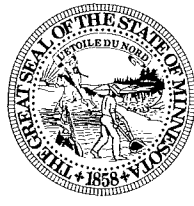
Two Fiscal Years Ended June 30, 1997

May 1998

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

98-30



STATE OF MINNESOTA
OFFICE OF THE LEGISLATIVE AUDITOR
JAMES R. NOBLES, LEGISLATIVE AUDITOR

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Legislative Audit Commission

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Minnesota Council on Disability

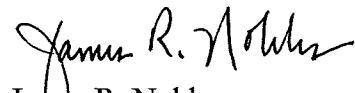
Members of the Minnesota Council on Disability


Mr. Clell Hemphill, Executive Director
Minnesota Council on Disability

We have audited the Minnesota State Council on Disability for the period July 1, 1995, through June 30, 1997, as further explained in Chapter 1. Our audit scope included payroll and member per diem, grants, and other administrative expenditures. The following Summary highlights the audit objectives and conclusions.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we obtain an understanding of internal controls relevant to the audit. The standards also require that we design the audit to provide reasonable assurance that the Minnesota Council on Disability complied with provisions of laws, regulations, contracts, and grants that are significant to the audit. Management of the council 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 Minnesota State Council on Disability. This restriction is not intended to limit the distribution of this report, which was released as a public document on May 8, 1998.


James R. Nobles
Legislative Auditor


Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

End of Fieldwork: March 20, 1998

Report Signed On: May 5, 1998

SUMMARY

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Minnesota State Council On Disability

Financial Related Audit Two Fiscal Years Ended June 30, 1997

Public Release Date: May 8, 1998

No. 98-30

Agency Background

The Minnesota State Council on Disability serves as the primary agency that recommends and advocates programs and legislation that impact disabled persons in the state. The council operates under Minn. Stat. Sections 256.481 and 256.482. The council is governed by 21 members who are appointed to staggered three-year terms by the Governor. Council members represent both the general public and organizations that work with disabled individuals. The council members select the executive director who provides administrative support and leadership in implementing council mandates, policies, and objectives. The current executive director is Clell Hemphill.

Objectives and Conclusions

The objectives of our audit were to gain an understanding of the internal control structure over the accounting and reporting of the council's financial activities and to determine whether the council complied with material finance-related legal provisions. The areas covered by our audit included payroll and member per diems, grants, and other administrative expenditures for the two year period ended June 30, 1997.

Generally, the council designed internal controls to provide reasonable assurance that its major financial activities were accurately reported in the state's accounting system and complied with applicable legal provisions and management's authorizations. However, the council did not adequately separate the payroll and personnel functions.

The Minnesota State Council on Disability agreed with the finding in the audit report. To strengthen internal controls over payroll, the executive director will approve biweekly payroll expenditures.

Minnesota State Council on Disability

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Audit Participation

The following members of the Office of the Legislative Auditor prepared this report:

Claudia Gudvangen, CPA	Deputy Legislative Auditor
Jim Riebe, CPA	Audit Manager
Chege Ngigi	Auditor-in-Charge

Exit Conference

We discussed the results of the audit at an exit conference with the following Minnesota State Council on Disability staff on April 28, 1998:

Clell Hemphill	Executive Director
Daryl Schwier	Accounting Coordinator

Chapter 1. Introduction

The Minnesota State Council on Disability serves as the primary agency that recommends and advocates programs and legislation that impact disabled persons in the state. The council is governed by 21 members who are appointed to staggered three-year terms by the Governor. Council members represent both the general public and organizations that work with disabled individuals. The council members select the executive director. The executive director provides administrative support and leadership in implementing the council's mandates, policies, and objectives. The current executive director of the agency is Clell Hemphill.

The council operates under Minn. Stat. Sections 256.481 and 256.482. The activities of the council include the following:

- providing information and referral services for both the general public and persons with disabilities;
- performing ombudsman services for individuals with disabilities; and
- informing, training, and educating the public about the Americans with Disabilities Act and other legislation that impacts the disabled.

The council is funded through legislative appropriations. Table 1-1 summarizes the council's financial activities for the two fiscal years ended June 30, 1997.

Minnesota State Council on Disability

Table 1-1
Summary of Financial Activities
Two Fiscal Years Ended June 30, 1997

	<u>1997</u>	<u>1996</u>
Sources of Funds:		
Direct Appropriations	\$581,000	\$725,000
Miscellaneous Sources	3,335	1,110
Transfers In (1)	<u>20,141</u>	<u>11,095</u>
Total Sources	<u>\$604,476</u>	<u>\$737,205</u>
Uses of Funds:		
Payroll and Per Diem	\$397,530	\$412,511
Rent	41,166	44,629
Travel	30,274	20,813
Supplies	26,038	10,144
Other Administrative Expenditures (2)	102,667	63,186
Grants (3)	<u>0</u>	<u>150,000</u>
Total Uses	<u>\$597,675</u>	<u>\$701,283</u>

- (1) Transfers In represent the agency's share of the small agency supplemental appropriation authorized by the 1995 Laws of Minnesota, Chapter 254, Art. 1, Sec. 32.
- (2) The significant increase in other expenditures between 1996 and 1997 was caused by computer upgrades and enhancements at the end of the biennium to comply with the year 2000 requirements.
- (3) The council received a one-time appropriation to grant funds to bring the Center for the Arts in Fergus Falls, Minnesota into compliance with the federal Americans with Disabilities Act.

Source: Minnesota Laws and Minnesota Accounting and Procurement System as of December 1997.

Chapter 2. Payroll and Other Administrative Expenditures

Chapter Conclusions

The Minnesota State Council on Disability designed controls to provide reasonable assurance that nonpayroll expenditures were properly authorized and accurately reported in the state's accounting system. We found, however, that the council did not adequately separate duties over personnel and payroll transactions. For the items tested, the council's expenditures were in compliance with material finance-related legal requirements.

Payroll was the most significant expenditure of the council. In fiscal year 1997, payroll expenditures totaled approximately \$391,700 or 66 percent of the council's expenditures. The council employed nine full-time and two part-time staff. The executive director is a member of the state's Managerial Plan. All other employees of the council belong to either the Minnesota Association of Professional Employees (MAPE) or the American Federation of State, County, and Municipal Employees (AFSCME) bargaining units.

In addition to payroll, the council incurs other administrative expenditures for rent, travel, and supplies and equipment. In fiscal year 1996, the council also granted funds to bring the Center for the Arts in Fergus Falls, Minnesota, into compliance with the Americans with Disabilities Act. The council recorded its financial activity on the Minnesota Accounting and Procurement System (MAPS).

Audit Objectives and Methodology

We focused our review of expenditures on the following objectives:

- Did the council design internal controls to provide reasonable assurance that expenditures were paid at the proper amounts in accordance with management's authorization and accurately recorded in the accounting system?
- Did the council's expenditures comply with finance-related legal provisions, including collective bargaining unit agreements?

To conduct our audit, we interviewed council employees to gain an understanding of the administrative processes for payroll and other expenditures. We performed analytical review procedures of employee pay rates and the reasonableness of per diem expenditures. We also traced pay rates to the applicable bargaining unit agreements. We tested employee expense reimbursements for compliance with established policies, verified rent expenditures, and reviewed the grant agreement between the council and the Center for the Arts. We also reviewed the statutory authority for the grant.

Minnesota State Council on Disability

Conclusions

The council designed internal controls to provide reasonable assurance that its nonpayroll expenditures were properly authorized, adequately supported, and accurately recorded in the state's accounting system. We found, however, that the council did not maintain an adequate separation of duties over payroll processing as explained in Finding 1. The council complied with material finance-related legal provisions and bargaining unit agreements with respect to the items tested.

1. The council did not maintain an adequate segregation of duties over payroll.

The council granted employees inappropriate access to its payroll and personnel data. We found three employees who had full access to change payroll and personnel data. These employees could change their own payroll and personnel transactions, including pay rate adjustments. In addition, one of the employees was responsible for reviewing the accuracy of the payroll.

In order to provide an adequate separation of duties, employees should be given the minimum access necessary to perform their job responsibilities. Someone independent of the processing responsibilities should verify the accuracy of the payroll. The SEMA4 payroll system was designed to provide separate payroll and human resource security profiles so that responsibilities could be adequately separated. Allowing inappropriate access to data without independent verification of output reports greatly increases the opportunity for someone to enter erroneous or fraudulent transactions that may go undetected. Although it is difficult to adequately separate duties in a small agency, the council needs to ensure that it has adequate controls over payroll and personnel transactions since payroll is its largest expenditure.

Recommendation

- *The council should limit access to the payroll and personnel system to the minimum level needed by employees to perform their duties. Should the council determine the need to provide incompatible access to multiple employees, it should design alternative controls to mitigate the risks associated with such access.*

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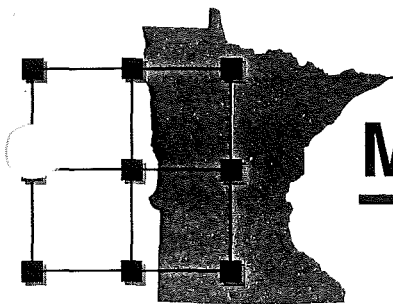
Status of Prior Audit Issues As of June 30, 1997

Most Recent Audit

Legislative Audit Report 93-33, issued in June 1993, covered the two fiscal years ended June 30, 1992. The audit scope included revenues, payroll, council member per diem reimbursements, travel expenses, contractual services and grants. The report did not contain any audit findings.

State of Minnesota Audit Follow-Up Process

The Department of Finance, on behalf of the Governor, maintains a quarterly process for following up on issues cited in financial audit reports issued by the Legislative Auditor. The process consists of an exchange of written correspondence that documents the status of audit findings. The follow-up process continues until Finance is satisfied that the issues have been resolved. It covers entities headed by gubernatorial appointees, including most state agencies, boards, commissions, and Minnesota state colleges and universities. It is not applied to audits of the University of Minnesota and quasi-state organizations, such as the metropolitan agencies or the State Agricultural Society, the state constitutional officers, or the judicial branch.



Minnesota State Council on Disability

April 29, 1998

James R. Nobles
Legislative Auditor
State of Minnesota
Centennial Office Bldg.
658 Cedar Street
St. Paul, Minnesota 55155

Dear Mr. Nobles:

Recently Mr. Riebe and Mr. Ngigi concluded an audit of our Council. They were both thorough and helpful in developing additional procedures surrounding accountability of public funds.

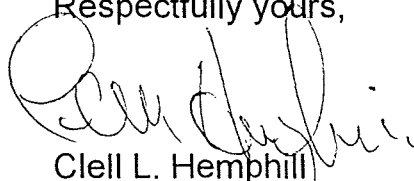
Heretofore, the Council had a business manager approval/check/balance type of system. In addition, I review expenses quarterly with the twenty-one Council Members. Trying to assure a review and check by the appointees.

As suggested by your staff, we will immediately initiate a more direct Executive Director involvement into the approval process. Since I am not knowledgeable about the SEMA4 payroll process, and to ensure adequate control over the personnel I will not only sign off on payroll timebooks, but also the payroll register.

I will continue to review with the personnel officer and sign each evaluation, and any financial changes that are a result of employee relations assurances via DOER.

The staff appreciates your review and the sharing of ideas.

Respectfully yours,



Clell L. Hemphill