

Minnesota Office of Strategic and Long Range Planning

Financial Related Audit

For the Two Fiscal Years Ended June 30, 1997

May 1998

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Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

98-33



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

Senator Deanna Wiener, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Ms. Ann Schluter, Director
Minnesota Office of Strategic and Long Range Planning

We have audited selected areas of the Minnesota Office of Strategic and Long Range Planning for the period July 1, 1995, through June 30, 1997, as further explained in Chapter 1. Our audit scope included Land Management Information Center, Environmental Quality Board, and the Children's Initiative revenue programs. We also audited the department's administrative expenditures. 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 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 Minnesota Office of Strategic and Long Range Planning complied with provisions of laws, regulations, contracts, and grants that are significant to the audit. Management of the agency is responsible for establishing and maintaining the internal control structure and complying with applicable laws, regulations, contracts, and grants.

We have prepared this report for the information of the Legislative Audit Commission and the management of the Minnesota Office of Strategic and Long Range Planning. We do not, however, limit the distribution of this report, which was released as a public document on May 22, 1998..

Handwritten signature of James R. Nobles in cursive.

James R. Nobles
Legislative Auditor

Handwritten signature of Claudia J. Gudvangen in cursive.

Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

End of Fieldwork: April 3, 1998

Report Signed On: May 18, 1998

SUMMARY

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Minnesota Office Of Strategic And Long Range Planning

Financial Related Audit For the Two Fiscal Years Ended June 30, 1997

Public Release Date: May 22, 1998

No. 98-33

Background Information

The Legislature created the Minnesota Office of Strategic and Long Range Planning (Minnesota Planning) in 1991. Prior to that time, the office operated as the State Planning Agency. The mission of Minnesota Planning is to keep Minnesotans focused on the future, to provide policy-makers and the public with accurate information and analysis about emerging and critical issues, and to influence policy decisions for a better future through long-range planning. Under the authority of Minn. Stat. Chapter 4A, the office develops an integrated long-range plan for the state, coordinates planning activities among all levels of government, and stimulates public interest to impact the future of the state. It also acts in coordination with the commissioner of Finance, other state agencies, and the legislature in planning and financing major public programs. Ann Schluter is the current director of the office.

Audit 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 Minnesota Office of Strategic and Long Range Planning's financial activities and to determine if the office complied with material finance-related legal provisions. The revenue areas covered by our audit included the Land Management Information Center (LMIC), Environmental Quality Board (EQB), and the Children's Initiative programs. In fiscal year 1997, the legislature transferred the children's programs to the Department of Children, Families, and Learning. Administrative expenditure areas reviewed included payroll, rent, purchased services, and supplies.

We concluded that Minnesota Planning designed and implemented internal controls to provide reasonable assurance that it adequately safeguarded and accurately reported its financial activity in the state's accounting system. We also found that Minnesota Planning generally complied with applicable statutory provisions. However, the Environmental Quality Board did not recover indirect costs in its assessments or fees for work performed.

Minnesota Planning agreed with the finding and indicated in its response that it would determine an appropriate rate for indirect cost billings and apply those rates to assessments and studies beginning July 1, 1998.

Minnesota Office of Strategic and Long Range Planning

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Audit Participation

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

Claudia Gudvangen, CPA	Deputy Legislative Auditor
Cecile Ferkul, CPA, CISA	Audit Manager
David Polisen, CPA, CISA	Auditor-In-Charge
Keith Bispala	Auditor

Exit Conference

We discussed the findings and recommendations with the following representatives of the Minnesota Office of Strategic and Long Range Planning at the exit conference held on May 7, 1998:

Ann Schluter	Director
David Arbeit	Director of Land Management Information Center
Michael Sullivan	Director of Environmental Quality Board
Susan O'Connell	Accountant

Chapter 1. Introduction

The Legislature created the Minnesota Office of Strategic and Long Range Planning (Minnesota Planning) in 1991. Prior to that time the office operated as the State Planning Agency. Minnesota Planning's mission is to keep Minnesotans focused on the future, to provide policy-makers and the public with accurate information and analysis about emerging and critical issues, and to influence policy decisions for a better future through long-range planning. Under the authority of Minn. Stat. Chapter 4A, the office develops an integrated long-range plan for the state, coordinates planning activities among all levels of government, and stimulates public interest to impact the future of the state. It also acts in coordination with the commissioner of Finance, other state agencies, and the legislature in the planning and financing for major public programs.

Some of the activities of Minnesota Planning include:

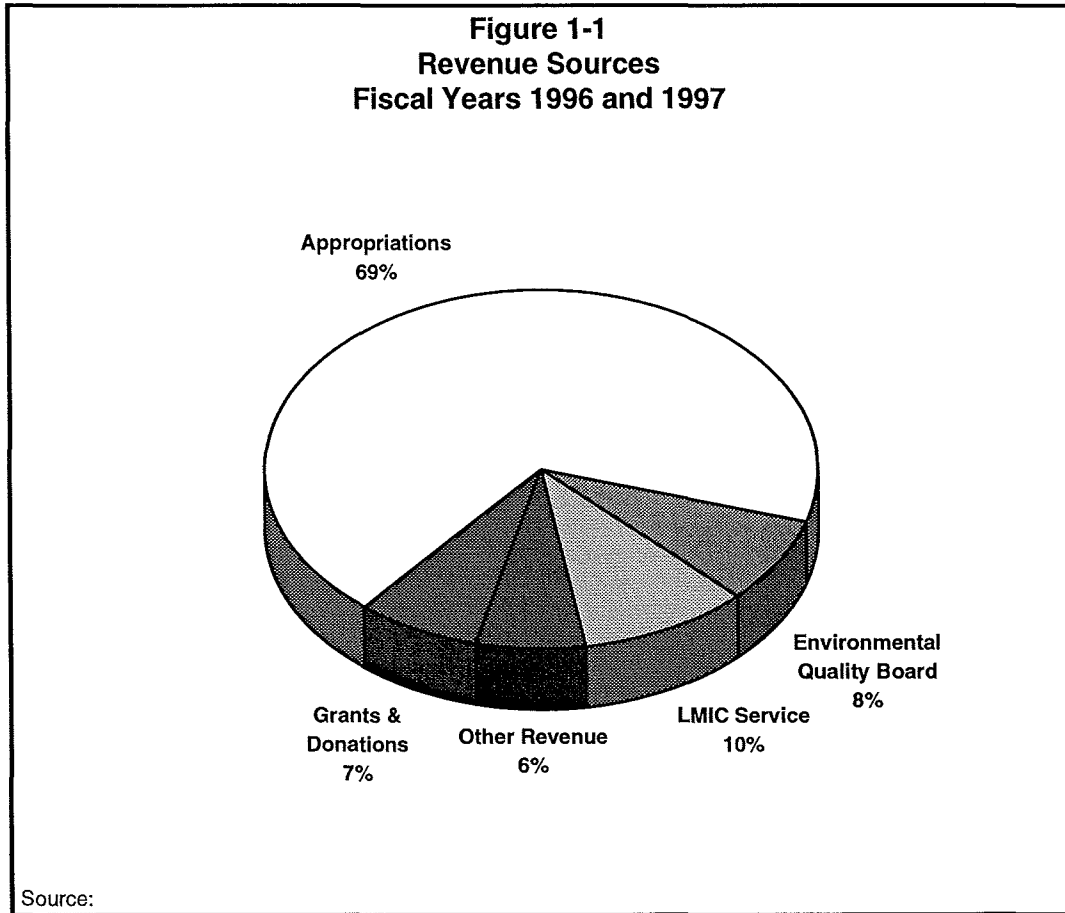
- **Critical Issues** activities involve conducting strategic and long-range planning on critical and emerging issues that affect the people of Minnesota. Some recent projects included sponsoring a major conference on federal welfare reform in Minnesota, publishing a comprehensive report about the new federal welfare law, and issuing a monthly electronic report (*Minnesota Issue Watch*) that highlights issues facing Minnesota policy makers.
- **Environmental Quality Board (EQB)** creates long-range plans and reviews proposed projects that would significantly influence Minnesota's environment. Recent projects included reissuing the *Guide to the Minnesota Environmental Review Rules*, publishing of *Sustainable Development, The Very Idea*, and preparing a series of reports for the Governor's Round Table on Sustainable Development.
- **Minnesota Land Management Information Center (LMIC)** promotes the use of geographic information and analysis in government. LMIC's services focus on coordination of geographic information technology activities within Minnesota. LMIC also provides staffing for the Governor's Council on Geographic Information Systems.
- **Criminal Justice Center** provides criminal and juvenile justice information, conducts research, and maintains databases for policy development. The center works with the Chemical Abuse and Violence Prevention Resource Council, the Criminal Justice Information Policy Task Force, and the Juvenile Justice Advisory Committee.
- **Office of the State Demographer** estimates, analyzes, and projects population trends and characteristics, and provides information and technical assistance to state agencies, other levels of government, businesses, and the general public. The office operates a help line to provide information and referrals to callers requesting demographic data.

Linda Kohl was the director from the creation of the office in 1991 until July 1995. Ron Youngren was the director from July 1995 until September 1995, when Linda Kohl returned as

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director. Ms. Kohl was the director until July 1997. Ann Schluter was the interim director until her appointment became permanent in August 1997.

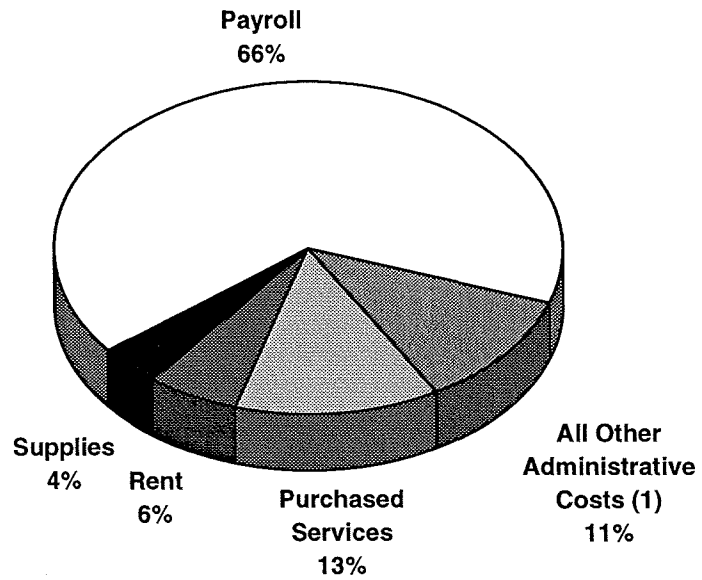
Minnesota Planning receives General Fund appropriations for most of its operations. The office received General Fund appropriations totaling \$3,943,000 and \$3,917,000 for fiscal years 1996 and 1997, respectively. In addition to these appropriations, the office receives grants and earns revenue from special projects. Figure 1-1 shows the revenue sources for fiscal years 1996 and 1997.



Minnesota Planning's largest expenditure category is payroll. Payroll totaled \$3,738,099 in fiscal year 1996, and \$3,877,392 in fiscal year 1997. Figure 1-2 compares payroll to the other administrative expenditures for those years.

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**Figure 1-2
Administrative Expenditures
Fiscal Years 1996 and 1997**



(1) "All Other Administrative Costs" include items such as equipment purchases, travel reimbursements, and communications costs.

Source: Minnesota Accounting and Procurement System (MAPS) reports.

Chapter 2. Revenue Programs

Chapter Conclusions

Minnesota Planning designed and implemented internal controls to provide reasonable assurance that it adequately safeguarded and accurately reported revenue collections in compliance with applicable legal provisions and management's authorization. Generally, Minnesota Planning set its fees to cover related program costs. However, it did not recover overhead costs when it billed for work performed by the Environmental Quality Board.

Minnesota Planning receives grants and donations to support various programs. The office also conducts special projects for interested parties and charges them for the work performed. Minnesota Planning deposits the revenue received for special projects into accounts designated to fund those projects. Table 2-1 highlights the revenue collected for fiscal years 1996 and 1997.

Table 2-1
Revenue Received from Outside Sources
Fiscal Years 1996 and 1997

Program Description	FY96	FY97	Total
LMIC service bureau	\$ 467,124	\$ 657,075	\$1,124,199
Environmental Quality Board			
Environmental impact statements	337,684	70,539	408,223
Environmental quality regulations	223,033	144,873	367,906
High-level waste program	15,000	24,950	39,950
Utility application fees	0	78,322	78,322
Children's Initiative programs (1)			
Pew Charitable Trust	\$ 255,050	\$ 0	\$ 255,050
Teen pregnancy program	68,922	0	68,922
Action for children program	43,000	0	43,000
Other agency deposits (2)	203,475	502,621	706,096
Other grants and donations	226,204	228,938	455,142
Other revenue	<u>19,952</u>	<u>1,173</u>	<u>21,125</u>
Total Revenue	<u>\$1,859,444</u>	<u>\$1,708,491</u>	<u>\$3,567,935</u>

- (1) In fiscal year 1997, Children's Initiative programs transferred to the Department of Children, Families, and Learning.
(2) Most of the revenue received is on behalf of other entities. Minnesota Planning acts as a fiduciary for these funds.

Source: Minnesota Accounting and Procurement System (MAPS) Reports.

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Audit Objectives and Methodology

The primary objectives of our review of the revenue programs were as follows:

- Did Minnesota Planning design and implement internal controls to provide reasonable assurance that it adequately safeguarded and accurately reported revenue collections in compliance with applicable legal provisions and management's authorization?
- Did Minnesota Planning set its fees to cover its costs for applicable programs?

To meet these objectives, we interviewed Minnesota Planning employees to gain an understanding of controls over the revenue process. We reviewed agency records to determine if it billed and collected the proper revenue amounts for special projects. We reviewed the accounting records to determine if Minnesota Planning properly accounted for the revenue it collected.

Land Management Information Center (LMIC)

The Land Management Information Center's mission is to serve Minnesota through the effective use of geographic information to support public policy and government operations. The center receives an appropriation from the legislature to support its core services related to coordination of geographic information system activities and distribution of geographic information.

Through the LMIC service bureau, the center also provided specialized services at the request of other state agencies, other governments, and the general public. These services included consulting, conducting projects, and providing data distribution and computerized information services. The center charged for the direct and indirect costs of providing these specialized services. The bureau established unique account numbers to properly account for the costs and ensure accurate billing and collection records. The bureau also billed for any specific costs directly related to a project. Employees maintained secondary timesheets to monitor the time spent on specific projects. The bureau then multiplied the actual payroll costs by an overhead rate to ensure reimbursement of various indirect costs, such as rent and supplies. The overhead rate has not been adjusted since 1995. Without adjusting the overhead rate, the center could experience cash flow problems in the future.

The bureau also sells and provides technical support for a software package it developed called EPPL7. EPPL7 is a spatial data analysis software package that provides users with the ability to construct complex maps.

Environmental Quality Board (EQB)

The Environmental Quality Board helps ensure coordination and cooperation among state agencies on environmental issues and advises the Governor and legislature on environmental legislation and issues. The board consists of 15 members, including five public members appointed by the Governor, and various commissioners from state departments that play a vital role in Minnesota's environment and development. Minnesota Planning provides staff to the board to administer and implement various environmental initiatives. The EQB assesses utility

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companies for the general services they provide, and charges fees for the specific certifications, permits, and special studies they perform. As noted in Finding 1, the assessments and fees charged by the EQB do not recover the indirect costs of the board's operations.

Some of the EQB's functions include:

- The EQB provides certain services to all utility companies. These services include base line studies, general environmental studies, and the monitoring of conditions placed on site certificates and construction permits. The EQB assesses the utilities for the cost of these activities. The legislature has directed Minnesota Planning to deposit these receipts into the state treasury to retire a portion of the state's long-term debt.
- The EQB also issues power facility siting certificates and transmission line permits. The board involves local governments and the general public in a process to choose facility sites and transmission line routes that minimize possible harm to people and the environment, while maximizing the ability of the power system to meet electricity needs.
- The EQB performs environmental impact studies in the form of special projects. The EQB performs these special projects on behalf of utility companies or other interested parties. Some of the recent projects included NSP's dry cask storage, NSP's wind generation resource project, and the University of Minnesota's steam plant.

Children's Initiative Programs

Prior to fiscal year 1997, Minnesota Planning administered various programs relating to the welfare of Minnesota's children. Minnesota Planning supported a teen pregnancy prevention program and the Action for Children program through donations and foundation funding. Minnesota Planning's goal for the teen pregnancy program was to improve public/private collaboration, community-based programs, and information dissemination and education. The Action for Children program created a vision and an agenda for Minnesota's children. The teen pregnancy and the Action for Children programs were concluded at the end of fiscal year 1996.

Minnesota Planning received a grant from the Pew Charitable Trust to support children's programs in low-income areas of the state. Minnesota Planning subgranted the money to several counties to develop improved access to various benefits and services. Minnesota Planning also received General Fund appropriations that it subgranted to counties to support collaborative programs for children and families. Effective in fiscal year 1997, the legislature transferred administrative responsibility for various children's programs, including those administered by Minnesota Planning, to the Department of Children, Families, and Learning.

Conclusions

Minnesota Planning designed and implemented internal controls to provide reasonable assurance that it adequately safeguarded and accurately reported its revenue collections in compliance with applicable legal provisions and management's authorization. Minnesota Planning set its fees to cover its costs for applicable programs, except as discussed in Finding 1.

Minnesota Office of Strategic and Long Range Planning

1. The Environmental Quality Board (EQB) did not recover overhead costs when it billed for work performed.

Statutes require the EQB to assess utility companies an amount that will recover to the state the actual expenditures of the board. The EQB assesses utility companies for general services such as base line studies, general environmental studies, and the monitoring of conditions placed on site certificates and construction permits. Additionally, the EQB charges fees to specific companies requesting facility site or transmission route designations, or other specific environmental impact studies. The EQB collects the assessments and fees in advance of providing services. Statutes require the EQB to refund any amounts that exceed the actual cost of the EQB's general operations or other requested services.

In its determination of the actual cost of providing services, the EQB considered only its direct costs such as payroll and supplies. It did not consider the indirect costs associated with the services provided. For example, the EQB did not include as actual costs its portion of the rent or telecommunication costs incurred by Minnesota Planning.

By not recouping the indirect costs, the General Fund is subsidizing these operations.

Recommendation

- *The EQB should include indirect costs with the costs it bills out for its power plant assessments and special studies.*

Chapter 3. Administrative Expenditures

Chapter Conclusions

Minnesota Planning designed and implemented internal controls to provide reasonable assurance that it accurately reported its administrative expenditures in the accounting records and complied with applicable legal provisions and management's authorization.

Minnesota Planning's largest expenditure category during fiscal years 1996 and 1997 was payroll. The agency incurred payroll expenditures of \$3,738,099 and \$3,877,392 for fiscal years 1996 and 1997, respectively, or 66 percent of its total administrative expenditures. Other major expenditure categories include rent, purchased services, and supplies. Table 3-1 shows Minnesota Planning's administrative expenditures during fiscal years 1996 and 1997.

Table 3-1
Administrative Expenditures
Fiscal Years 1996 and 1997

	<u>FY96</u>	<u>FY97</u>	<u>Total</u>
Payroll	\$3,738,099	\$3,877,392	\$7,615,491
Purchased services	453,190	1,073,480	1,526,670
Rent	333,632	335,101	668,733
Supplies	235,973	220,134	456,107
All Other Administrative Costs (1)	<u>609,368</u>	<u>676,594</u>	<u>1,285,962</u>
Total Administrative Expenditures	<u>\$5,370,262</u>	<u>\$6,182,701</u>	<u>\$11,552,963</u>

(1) "All Other Administrative Costs" includes items such as equipment purchases, travel reimbursements, and communications costs.

Source: Minnesota Accounting and Procurement System (MAPS) Reports.

Audit Objectives and Methodology

The primary objectives of our review of expenditures were to determine:

- Did Minnesota Planning design and implement internal controls to provide reasonable assurance that it accurately reported its administrative expenditures in the accounting records in compliance with applicable legal provisions and management's authorization?
- Did Minnesota Planning comply with applicable legal provisions and management's authorization?

Minnesota Office of Strategic and Long Range Planning

To meet these objectives, we interviewed Minnesota Planning employees to gain an understanding of the payroll, procurement, and disbursement processes. We performed analytical procedures to detect unusual trends or irregularities. We tested samples of expenditures to determine if Minnesota Planning properly authorized, processed, and recorded the expenditures. We also tested the samples of expenditures to determine if Minnesota Planning complied with applicable legal provisions.

Conclusion

Minnesota Planning designed and implemented internal controls to provide reasonable assurance that it accurately reported its administrative expenditures in the accounting records and complied with applicable legal provisions and management's authorization.

Minnesota Office of Strategic and Long Range Planning

Status of Prior Audit Issues As of April 3, 1998

Most Recent Audits

Legislative Audit Report 94-39, issued in September 1994, covered the two fiscal years ended June 30, 1993. The report contained two findings. First, the office did not develop a written service contract with the Metropolitan Airports Commission. The office resolved this finding. The second finding addressed the lack of a records retention schedule. The office is in the process of developing a comprehensive records retention schedule.

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. Finance continues the follow-up process until it is satisfied that the department has resolved the issues. It covers entities headed by gubernatorial appointees, including most state agencies, boards, commissions, and Minnesota state colleges and universities. Finance does not apply the follow-up process to audits of the University of Minnesota, any quasi-state organizations, such as the Metropolitan agencies or the State Agricultural Society, the state constitutional officers, or the judicial branch.



May 8, 1998

James R. Nobles, Legislative Auditor
1st Floor South, Centennial Building
658 Cedar Street
St. Paul MN 55155

Dear Mr. Nobles:

Thank you for the opportunity to respond to the finding of your audit of our agency for the four years ended June 30, 1997. Mr. Poliseno and Mr. Bispala are to be complimented on their professionalism during field work which contributed to making the experience a positive one for our agency.

We agree with the issue that our Environmental Quality Board (EQB) should include indirect costs in the rate billed for our power plant assessments and special studies. Michael Sullivan of the EQB will work with Susan O'Connell of our finance section to determine an appropriate rate for indirect cost billings and apply those rates to assessments and studies beginning July 1, 1998.

Sincerely,

A handwritten signature in cursive script, reading "Ann Schluter".

Ann Schluter, Director
Minnesota Office of Strategic & Long Range Planning

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