

# Government Innovation and Cooperation Board

## Financial Audit

For the Period July 1, 1995, through June 30, 1997

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July 1998

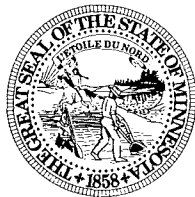
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Financial Audit Division  
Office of the Legislative Auditor  
State of Minnesota

98-42





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

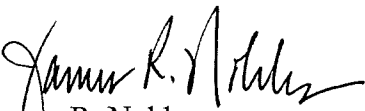
Mr. Jim Gelbmann, Executive Director  
Board of Government Innovation and Cooperation

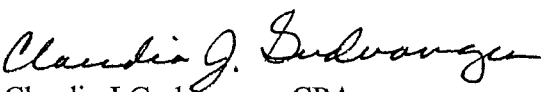
Members of the Board of Government Innovation and Cooperation

We have audited the Board of Government Innovation and Cooperation for the period July 1, 1995, through June 30, 1997. Our audit scope included grant and payroll 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 Board of Government Innovation and Cooperation complied with the provisions of laws, regulations, contracts, and grants that are significant to the audit. Management of the board is responsible for establishing and maintaining the internal control structure and for 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 Board of Government Innovation and Cooperation. This restriction is not intended to limit the distribution of this report, which was released as a public document on July 30, 1998.

  
James R. Nobles  
Legislative Auditor

  
Claudia J. Gudvangen, CPA  
Deputy Legislative Auditor

End of Fieldwork: May 15, 1998

Report Signed On: July 27, 1998



# SUMMARY

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## Government Innovation and Cooperation Board

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### Background

The Legislature created the Board of Government Innovation and Cooperation in 1993. The board's mission is to facilitate improved quality and delivery of services by local units of government. This is accomplished by providing grant incentives and removing state imposed barriers in providing effective service delivery. The board is composed of 11 members including the State Auditor, the commissioners of Finance and Administration, two administrative law judges, and six legislators. Jim Gelbmann was appointed executive director of the board.

The board received a General Fund appropriation of \$2,000,000 for the 1996-1997 biennium. Our audit scope included a review of board grants and payroll costs for the period July 1, 1995, through June 30, 1997.

### Conclusions

We found that the Board of Government Innovation and Cooperation designed internal controls to provide reasonable assurance that grants and payroll expenditures were properly authorized, adequately documented, and accurately recorded in the accounting system. For the items tested, the board complied with material finance-related legal provisions governing grants and applicable bargaining unit contract provisions governing payroll.



# **Board of Government Innovation and Cooperation**

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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
Brad White, CPA, CISA	Audit Manager
Steve Johnson, CPA	Auditor-In-Charge

### **Exit Conference**

This report was discussed with the following staff of the Board of Government Innovation and Cooperation at an exit conference held July 24, 1998:

Jim Gelbmann	Executive Director
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# Board of Government Innovation and Cooperation

## Chapter 1. Introduction

The mission of the Board of Government Innovation and Cooperation is to facilitate improved quality and efficiency in the delivery of services by local governments. The Board was created by the 1993 Legislature. Currently, the board consists of 11 members including State Auditor Judith Dutcher, Commissioner of Administration Elaine Hansen, Administrative Law Judge Allan Klein, Chief Administrative Law Judge Kenneth Nickolai, Commissioner of Finance Wayne Simoneau, State Senators John Hottinger, Jim Metzen and Roy Terwilliger, and State Representatives Irv Anderson, Geri Evans, and Bob Ness. The board has two full-time employees, including the executive director, Jim Gelbmann. The board is governed by Minnesota Statutes 465.795 through 465.88.

The board accomplishes its mission by providing incentives for innovation and cooperation, encouraging local officials to implement more effectively service delivery models. It is able to waive state-imposed barriers to more effective service delivery. It may also facilitate the mergers of two or more local units of government. In addition, the board seeks other opportunities to promote more effective and efficient public services.

The board received a \$2,000,000 appropriation for the 1996-1997 biennium (Laws of Minnesota for 1995, Chapter 264, Article 8, Section 25). Board sources and uses of funds are shown in Table 1-1.

Table 1-1  
Board of Government Innovation and Cooperation  
Sources and Uses of Funds

	<u>FY 1996</u>	<u>FY 1997</u>
Sources:		
Appropriations	\$1,000,000	\$1,000,000
Salary Supplement	8,894	2,204
Balance Forward In	75,000	676,742
Available Resources	<u>\$1,083,894</u>	<u>\$1,678,946</u>
Uses:		
Grants	\$ 282,925	\$1,175,284
Salaries	110,799	128,240
Other	13,383	18,014
Total Expenditures	\$ 407,107	\$1,321,538
Balance Forward Out	676,742	0
Appropriation Cancellations	0	357,408
Use of Resources	<u>\$1,083,849</u>	<u>\$1,678,946</u>

Note: The board pays certain grant contracts over a four-year period but does not have carryforward authority for its funds. As a result, \$306,000 of the canceled appropriation was budgeted for future grant payments. The 1997 Legislature included this \$306,000 in the 1998-99 appropriation to the board. (See *Laws of Minnesota*, 1997, Chapter 202, Article 1, Section 34.)

Source: State of Minnesota accounting reports for fiscal years 1996 and 1997 as of September 1996 and September 1997, respectively.

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## Chapter 2. Grants

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### *Chapter Conclusions*

*The Board of Government Innovation and Cooperation designed internal controls to provide reasonable assurance that grant awards were properly authorized, adequately documented, and accurately recorded in the accounting system. In addition, for the items tested, the board complied with material finance-related legal provisions governing the grants.*

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As authorized in Minnesota Statutes Section 465.798 to 465.88, the Board of Government Innovation and Cooperation provided funding to local units of government for two primary types of grants:

- Cooperation and Combination Grants
- Competitive Grants

Cooperation and combination grants provide funding of up to \$100,000 per year for initiatives to merge local governments and help overcome financial barriers to mergers. The board has the statutory authority to approve plans developed by the local governments for the merger of two or more counties, cities, or townships. For example, the board has approved the mergers of Norwood and Young America, and Redwood Falls and North Redwood. In addition, it has also provided financial assistance to four additional local governments for proposed mergers with neighboring jurisdictions. The board is actively working with community leaders and local government officials on five other potential mergers. The board also has the authority to provide \$10,000 to local governments that are interested in developing a merger plan.

The board provides competitive grants to local governments interested in developing pilot projects that demonstrate intergovernmental cooperation and innovation in the delivery of public services. If successful, these pilot projects will serve as models that may be replicated by other local governments throughout the state. Three types of competitive grants are provided:

- Service Budget Management Model Grants (up to \$50,000)
- Cooperation Planning Grants (up to \$50,000)
- Service Sharing Grants (up to \$100,000)

Each biennium, once the board receives its appropriation, it announces to government units that grants are available. Government units have four months to complete and submit preliminary applications. The board reviews applications and uses a point system specified in *Minnesota Statutes* Section 465.802 to prioritize and award grant projects. It awards the grants and executes grant contracts the following spring. Once grant contracts are executed, payments are

## Board of Government Innovation and Cooperation

disbursed and recorded on the state's accounting system. As a result of this timing, most of the grant expenditures occur in the second year of the biennium.

Table 2-1 provides information on the types of grant expenditures during the audit period.

**Table 2-1**  
**Board of Government Innovation and Cooperation**  
**Grant Expenditures**  
**Fiscal Years 1996 and 1997**

<u>Grant Types:</u>	<u>Fiscal Year 1996</u>	<u>Fiscal Year 1997</u>
Cooperation and Combination Grant Awards	\$ 283,000	\$ 421,000
Competitive Grant Awards	0	754,000
Total Grant Awards	<u>\$ 283,000</u>	<u>\$1,175,000</u>

Source: Statewide Accounting System for fiscal years 1996 and 1997, and the 1998-99 Biennial Budget Report.

The board is currently monitoring 79 pilot projects that have received competitive grants. Grant contracts require recipients to file quarterly financial status reports regarding disposition of awarded funds. The board has encountered difficulty with certain grant recipients that did not file. For example, one grant recipient did not file any quarterly reports due in fiscal year 1998. As a result, the board initiated a new policy to withhold ten percent of the competitive grant award until all required financial reporting requirements have been met.

### Audit Objectives and Methodology

We focused our review of the Board of Government Innovation and Cooperation grant expenditures on the following objectives:

- Did the board design and implement internal controls to provide reasonable assurance that grant awards and disbursements were authorized by the board, correctly recorded in the state's accounting system, and in compliance with applicable legal provisions?
- Did the board comply with applicable finance-related legal provisions and grant agreements governing the awarding and disbursement of grant funds?

To answer these questions, we interviewed the board's executive director to gain an understanding of the process and controls over awarding and disbursement of grants. We analyzed and reviewed grant transactions and conducted tests of disbursements to ensure proper authorization and recording and compliance with applicable statutory provisions and grant agreements.

### Conclusions

We found that the Board of Government Innovation and Cooperation designed internal controls to provide reasonable assurance that grant awards were properly authorized and documented. The board accurately recorded grant disbursements in the accounting system. In addition, for items tested, the board complied with material finance-related legal provisions governing grants.

# Board of Government Innovation and Cooperation

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## Chapter 3. Payroll

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### *Chapter Conclusions*

*The Board of Government Innovation and Cooperation designed internal controls to provide reasonable assurance that payroll expenditures were processed in accordance with management's authorization, adequately documented, and accurately recorded in the accounting system during fiscal years 1996 and 1997. For the items tested, we found that the board staff were compensated in accordance with the provisions of the applicable bargaining unit agreements.*

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The Board of Government Innovation and Cooperation has its payroll processed through the Department of Administration. The board utilizes the State Employee Management (SEMA4) human resource and payroll system. Payroll costs totaled \$110,799 and \$128,240 for fiscal years 1996 and 1997, respectively. The board has two full-time employees, an executive director and a management analyst.

### **Audit Objectives and Methodology**

We focused our review of payroll on the following objectives:

- Did the board design internal controls to provide reasonable assurance that payroll transactions were properly authorized, adequately documented, and accurately recorded in the state's accounting system?
- Did the board's payroll expenditures comply with applicable bargaining unit agreements and management's authorization?

To meet these objectives, we interviewed the board's executive director and the Department of Administration's Human Service Division personnel to gain an understanding of the payroll process. We reviewed the board's human resource files and confirmed pay rates to applicable bargaining unit agreements. We also performed tests of SEMA4 payroll transactions to determine if the board properly authorized, processed, and recorded expenditures and complied with the applicable legal provisions of the respective bargaining units agreements.

### **Conclusions**

We concluded that, for the items tested, board employees were paid according to management's authorization and the applicable bargaining unit agreements. The board designed internal controls to provide reasonable assurance that payroll expenditures were properly authorized, adequately documented, and accurately recorded in the accounting system for fiscal years 1996 and 1997.

# Board of Government Innovation and Cooperation

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## Status of Prior Audit Issues As of May 15, 1998

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### No Prior Audit History

The Board of Government Innovation and Cooperation was created by the 1993 Legislature. This was the first audit of the financial activities of the board by the Office of the Legislative Auditor.

#### State of Minnesota Audit Follow-Up Process

The Department of Finance, on behalf of the Governor, maintains a quarterly process for following up 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.