

O L A

OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

Financial Audit Division Report

Minnesota Indian Affairs Council
July 1, 2001, through June 30, 2005



Financial Audit Division

The Office of the Legislative Auditor (OLA) is a professional, nonpartisan office in the legislative branch of Minnesota state government. Its principal responsibility is to audit and evaluate the agencies and programs of state government (the State Auditor audits local governments).

OLA's Financial Audit Division annually audits the state's financial statements and, on a rotating schedule, audits agencies in the executive and judicial branches of state government, three metropolitan agencies, and several "semi-state" organizations. The division also investigates allegations that state resources have been used inappropriately.

The division has a staff of approximately forty auditors, most of whom are CPAs. The division conducts audits in accordance with standards established by the American Institute of Certified Public Accountants and the Comptroller General of the United States.

Consistent with OLA's mission, the Financial Audit Division works to:

- Promote Accountability,
- Strengthen Legislative Oversight, and
- Support Good Financial Management.

Through its Program Evaluation Division, OLA conducts several evaluations each year.

OLA is under the direction of the Legislative Auditor, who is appointed for a six-year term by the Legislative Audit Commission (LAC). The LAC is a bipartisan commission of representatives and senators. It annually selects topics for the Program Evaluation Division, but is generally not involved in scheduling financial audits.

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OFFICE OF THE LEGISLATIVE AUDITOR

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Minnesota Indian Affairs Council

Members of the Minnesota Indian Affairs Council

Mr. Joseph B. Day, Executive Director
Minnesota Indian Affairs Council

We have audited selected areas of the Minnesota Indian Affairs Council for the period July 1, 2001, through June 30, 2005. Our audit scope included payroll, travel, and equipment expenditures, as well as employee expense reimbursements. Our objectives focused on a review of the Minnesota Indian Affairs Council's internal controls over these financial activities and its compliance with applicable legal provisions.

The enclosed Report Summary highlights our overall audit conclusions. The specific audit objectives and conclusions for each area are contained in the individual chapters of this report.

We would like to thank staff from the Minnesota Indian Affairs Council for their cooperation during this audit.

/s/ James R. Nobles

James R. Nobles
Legislative Auditor

/s/ Claudia J. Gudvangen

Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

End of Fieldwork: July 22, 2005

Report Signed On: October 26, 2005

Minnesota Indian Affairs Council

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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
Tom Donahue, CPA	Audit Manager
Tony Toscano	Auditor-in-Charge
Tim Rekow	Auditor

Report Summary

Overall Conclusion:

Except for the findings noted below, the Minnesota Indian Affairs Council’s internal controls were adequate, and the council complied with material finance-related legal provisions.

Findings:

- The council did not formalize an agreement for services received from an employee of another state agency. (Finding 1, page 6)
- The council did not consistently follow state purchasing guidelines. (Finding 2, page 8)

The report contained two findings related to internal control and legal compliance.

Audit Scope:

Audit Period:

July 1, 2001, to June 30, 2005

Programs Audited:

- Payroll
- Equipment Purchases
- Travel Expenditures

Agency Background:

The Minnesota Indian Affairs Council strives to protect the sovereignty of the state’s 11 tribes. The council also works to ensure the well being of American Indian citizens throughout the state.

The council receives its funding primarily from General Fund appropriations.

Minnesota Indian Affairs Council

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Chapter 1. Introduction

The Office of the Legislative Auditor selected the Minnesota Indian Affairs Council for audit based on an annual assessment of state agencies and programs. We used various criteria to determine the entities to audit, including the size and type of each agency's financial operations, length of time since the last audit, changes in organizational structure and key personnel, and available audit resources. It had been six years since our last audit of the Minnesota Indian Affairs Council, and the council experienced staff turnover in its financial operations.

Agency Overview

The Minnesota Indian Affairs Council was created by the Legislature in 1963. It is the official liaison between the state's 11 tribal governments and the State of Minnesota. The council strives to protect the sovereignty of the tribes and ensure the well being of American Indian citizens throughout the state. The council's membership consists of the elected chair of each of the 11 tribal governments and 2 at-large members who represent Indians residing in Minnesota, but not from a Minnesota-based tribe. The council appoints an executive director to manage its operations. Mr. Joseph B. Day has served as the council's executive director since 1994.

The Minnesota Indian Affairs Council has its main office in Bemidji and also maintains an office in St. Paul. The council monitors legislation and informs the tribal communities about the impact of the legislation. The council also serves as an intermediary between tribal communities and state agencies. The council is funded primarily from General Fund appropriations. Table 1-1 shows the General Fund activity of the Minnesota Indian Affairs Council for the four fiscal years under audit.

In August 2003, the Minnesota Legislature transferred the administrative responsibility of the Indian Business Loan Program, including approximately \$1.4 million in outstanding loans, from the council to the Minnesota Department of Employment and Economic Development.

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Table 1-1
General Fund Financial Sources and Uses
Fiscal Years 2002 – 2005

	2002	2003	2004	2005
Sources:				
Appropriations	\$584,000	\$602,000	\$482,000	\$482,000
Less: Cancelled and Reverted	0	(23,000)	(6,000)	0
Balance Forward In	0	39,251	57,967	88,376
Total Sources	<u>\$584,000</u>	<u>\$618,251</u>	<u>\$533,967</u>	<u>\$570,376</u>
Uses:				
Payroll	\$371,811	\$376,167	\$322,974	\$302,947
Travel	43,453	37,027	45,457	71,255
Equipment	46,172	6,974	19,340	17,770
Other Expenditures and Encumbrances	83,313	105,076	57,820	136,894
Balance Forward Out	39,251	57,967	88,376	41,510
Transfers Out	0	35,040	0	0
Total	<u>\$584,000</u>	<u>\$618,251</u>	<u>\$533,967</u>	<u>\$570,376</u>

Source: Minnesota Accounting and Procurement System as of August 31, 2005.

Audit Approach

Our audit was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we obtain an understanding of the council's internal controls relevant to the audit objectives. We used the guidance contained in *Internal Control-Integrated Framework*, published by the Committee of Sponsoring Organizations of the Treadway Commission, as our criteria to evaluate agency controls. The standards also require that we plan the audit to provide reasonable assurance that the council complied with financial-related legal provisions that are significant to the audit. In determining the council's compliance with legal provisions, we considered requirements of laws, regulations, contracts, and grant agreements.

To meet the audit objectives, we gained an understanding of the council's financial policies and procedures. We considered the risk of errors in the accounting records and noncompliance with relevant legal provisions. We analyzed accounting data to identify unusual trends or significant changes in financial operations. Finally, we examined documents supporting the council's internal controls and compliance with laws, regulations, contracts, and grant provisions.

Chapter 2. Payroll

Chapter Conclusions

The Minnesota Indian Affairs Council designed and implemented internal controls to provide reasonable assurance that it properly compensated staff and accurately recorded payroll expenditures in the accounting system. However, the council did not have an interagency agreement in place for work done by a state employee from another state agency.

For the items tested, the board complied with applicable finance-related legal provisions, compensation plans, and bargaining agreements.

Audit Objective

The primary objective of our audit of payroll expenditures was to answer the following questions:

- Did the council design and implement internal controls to provide reasonable assurance that it properly compensated staff and accurately recorded payroll expenditures in the accounting system?
- For the items tested, did the council comply with significant finance-related legal provisions, compensation plans, and bargaining unit provisions concerning payroll expenditures?

Background

The council's payroll expenditures totaled approximately \$339,000 for fiscal year 2005. As of June 2005, the council had five full-time employees. During various times in 2005, the council also employed several part-time employees. During fiscal year 2005, payroll accounted for approximately 62 percent of the council's total expenditures.

The council uses the state's payroll/personnel system. Employees submit biweekly timesheets that are approved by supervisors and entered into the payroll system.

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Current Finding and Recommendations

1. **The Minnesota Indian Affairs Council did not formalize an agreement for services received from an employee of another state agency.**

The council arranged for an employee of the Metropolitan State University (Metro State) to work on its web site but did not formalize the arrangement through an interagency agreement or separate contract. The employee did the work outside of her work hours for Metro State, and the council agreed to pay the employee overtime for the hours worked on the web site. The employee submitted separate timesheets for work done at the council. Payroll was processed by Metro State, but the overtime hours were charged to the council. During fiscal year 2005, the council paid this employee approximately \$2,400.

The council did not have an agreement in place with the employee for the work being performed. Additionally, the timesheets submitted were not always approved by the council. A signed agreement allows the parties involved to clearly understand the scope of the work to be performed and the compensation to be received. Additionally, approval of the timesheets submitted by the employee ensures that the council pays only for work that is actually performed.

Recommendations

- *The council should establish interagency agreements for services performed by employees of other state agencies.*
- *The council needs to ensure that all timesheets submitted by the employee are reviewed and approved prior to payment.*

Chapter 3. Administrative Expenditures

Chapter Conclusions

The Minnesota Indian Affairs Council's internal controls generally provided reasonable assurance that equipment purchases and travel expenses were accurately recorded in the accounting system and in compliance with applicable legal provisions and management's authorization.

For the items tested, except for the instances of noncompliance as discussed in Finding 2, the council complied with material finance-related legal provisions.

Audit Objective

The primary objective of our audit of administrative expenditures was to answer the following questions:

- Did the council's internal controls provide reasonable assurance that equipment purchases and travel expenses were accurately recorded in the accounting system and in compliance with applicable legal provisions and management's authorization?
- For the items tested, did the council comply with material finance-related legal provisions?

Background

In addition to payroll, we focused our review on the council's equipment purchases and travel expenses. These administrative expenditures totaled approximately \$18,000 and \$75,000, respectively, for fiscal year 2005.

Equipment purchases by state agencies are governed to a large extent by the Department of Administration. It has statutory authority to purchase goods and services for state agencies and can control the purchases by state agencies in various ways. Through the department's Materials Management Division, an employee of a state agency can obtain local authority to purchase certain types of goods and services for the agency. During the audit period, certain council employees had received the appropriate local purchasing training and were authorized to make local purchases according to specific spending guidelines.

Travel within the state represents a significant expense for the council, which maintains a satellite office in Saint Paul. Council employees who were required to travel in connection with their job responsibilities had their expenses paid by the council. The expenses in some cases were directly billed to the council while, in other instances, the employee paid the expense and

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was later reimbursed by the council. Travel reimbursements are covered under the bargaining agreements.

Current Finding and Recommendations

2. The Minnesota Indian Affairs Council did not always document its compliance with state guidelines concerning equipment purchases.

We tested 21 equipment purchases the council made during the audit period and noted the following concerns:

- Four items purchased, ranging from \$2,267 to \$4,946, lacked documentation to support compliance with the appropriate solicitation requirements;
- Seven invoices did not document that the items had been received; and
- Two items were not entered into the fixed asset system.

The Department of Administration has set up state purchasing guidelines to help ensure that state agencies get the best value possible while also ensuring that certain targeted vendors are able to bid for state business. These guidelines require, among other things, that agencies obtain solicitations for their local purchases. Purchases up to \$2,500 require one solicitation, while purchases between \$2,500 and \$5,000 require two solicitations. For four equipment purchases, we could not determine from council records whether the council had solicited at least two vendors or not. The council needs to document all solicitations to support its compliance with state guidelines.

During our review of vendor invoices for equipment purchases, we noted that seven invoices were paid without noting whether the equipment had been received or not. Although we determined that such equipment had been received, the council needs to document the receipt of goods to support the payment. This documentation can be in the form of a signed packing slip or receiving report indicating that the equipment has been received, and the invoice can be paid.

Finally, we noted that two laptop computers were purchased in December 2004 and, as of June 30, 2005, had not been posted to the fixed asset system.

In order to maintain effective controls over equipment purchasing and comply with state guidelines, the council needs to ensure that it consistently documents its equipment purchases.

Recommendations

- *The council needs to establish controls to ensure that it complies with state solicitation requirements and to document all solicitations made.*
- *The council needs to document the receipt of equipment purchased to support the payment of invoices.*
- *The council should post its equipment purchases to the fixed asset system in a timely manner.*

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Status of Prior Audit Issues

As of July 22, 2005

Legislative Audit Report 99-34, issued in July 1999, covered the three fiscal years ending June 30, 1998. The audit scope included the Indian Business Loan Program and certain administrative expenditure categories, including payroll, professional/technical services, travel, and rent. The report contained 13 audit findings. The most significant findings involved the council's administration of the Indian Business Loan Program, which was subsequently transferred to the Department of Employment and Economic Development.

In May 2001, the Department of Finance issued an Internal Audit Report which followed up on the findings from the previous Legislative Audit report. The report concluded that seven of the recommendations were implemented, and six were partially implemented.

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, any quasi-state organizations, such as metropolitan agencies or the State Agricultural Society, the state constitutional officers, or the judicial branch.

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email: contactname@mniac.org ♦ website: <http://www.mniac.org>

October 21, 2005

James R. Nobles, Legislative Auditor
Office of the Legislative Auditor
Room 140, centennial Building
658 Cedar Street
St. Paul, Minnesota 55155

Dear Mr. Nobles,

In response to Minnesota Indian Affairs audit funding:

1. The Minnesota Indian Affairs Council did not formalize an agreement for services received from an employee of another state agency.

The Council negotiated with supervisor of Metropolitan State University employee through telecommunications and subsequently wrote a formal letter of request for services defining conditions and rate of compensation. A copy of letter was forwarded to Tony Tascona at the Office of the Legislative Auditor. Time spent on web site activities were verified and time sheets were approved over the phone by Council staff prior to data entry into SEMA4 by Metro State staff. Hard copy of time sheets and work progress documentation were later forwarded to the Council.

In the future the Council will establish formal interagency agreements for all services performed by employees of other state agencies. Time spent on projects, progress verified and timesheets will be reviewed and approved prior to payment for services in accordance with state policy. Mamie S. Rossbach, Business Manager, and Diana Yerbich, Office Assistant Specialist will ensure formal interagency agreements have proper state authorization, time and performances verified.

2. The Minnesota Indian Affairs Council did not always document its compliance with state guidelines concerning equipment purchases.

Due to the remote rural area the Minnesota Indian Affairs Council, some vendors in this service area are single-source vendors and deemed exceptions to state solicitation requirements. The equipment in question also met the emergency need requirements under the state MMD \$5,000 Authority for Local Purchase Manual policy.

The Council will ensure all shipping receipts are date stamped, packing slips verified, attached to invoices and retained on file.



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We further agree to post equipment purchases in to the state fixed asset system at the time required in state policy. Mamie S. Rossbach, Business Manager will state tag and enter equipment (two lap-tops) in the state fixed asset system on Monday, October 24, 2005 when received from our St. Paul Office.

Three of the five Minnesota Indian Affairs Council staff are now required to attend the state Materials Management Certification Testing for Authority for Local Purchasing, Mamie S. Rossbach, Business Manager, Diana Yerbich, Office Assistant Specialist and Jim Jones Jr., Cultural Resource Specialist.

If you have any further questions, please call me at (218) 755-3224. Thank you for your professionalism during the audit.

Respectfully

/s/ Joseph B. Day

Joseph B. Day, Executive Director
Minnesota Indian Affairs Council