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**Chicano Latino Affairs Council**

**Financial-Related Audit  
For the Period July 1, 1995, through June 30, 1999**

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**November 1999**

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

**99-58**

# SUMMARY

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## **Chicano Latino Affairs Council**

### **Financial-Related Audit For the Period from July 1, 1995, through June 30, 1999**

Public Release Date: November 10, 1999

No. 99-58

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#### **Agency Background**

The Chicano Latino Affairs Council was created by the Legislature in 1978. The council is responsible for promoting the social, economic, and political development of Minnesota's Chicano/Latino community. The council consists of eleven members appointed by the Governor.

#### **Audit Scope and Conclusions**

We have conducted a financial-related audit of the Chicano Latino Affairs Council for the period from July 1, 1995, through June 30, 1999. Our audit scope included revenues, travel, per diem, payroll, professional/technical services, and other administrative expenditures. The council has a small staff and suffered from a lack of continuity throughout the audit period. We found numerous violations of state laws and policies during our audit of the council. The council overspent its fiscal year 1999 operating appropriation by \$3,568. An employee received an unfair benefit of \$3,080 by hiring her husband as a council vendor. The council inappropriately paid per diems to council members who were ineligible and whose terms had expired. The council overpaid its members for a variety of other costs, including excessive mileage and a duplicate payment. These overpayments totaled \$7,800. We also believe that the council did not adequately fulfill a grant contract.

The council did not comply with state policies when purchasing goods and services. The council allowed its employees to use cellular telephones for personal use. The council exceeded its local purchasing authority limits, did not have the council chair approve all contracts, prepaid council expenses, and did not comply with the state's prompt payment law. Finally, the council paid for some costs not allowed by state purchasing guidelines.

The council appointed a new permanent executive director on August 4, 1999. In the response to the audit report, the new executive director agreed with the audit findings and is taking corrective action to resolve the issues.



**OFFICE OF THE LEGISLATIVE AUDITOR**  
**STATE OF MINNESOTA • James Nobles, Legislative Auditor**

Representative Dan McElroy, Chair  
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. Heladio Zavala, Chair  
Chicano Latino Affairs Council

Ms. Ytmar Santiago, Executive Director  
Chicano Latino Affairs Council

We have conducted a financial-related audit of the Chicano Latino Affairs Council for the period from July 1, 1995, through June 30, 1999. Our audit scope included revenues, travel, per diems, payroll, professional/technical services, and other administrative expenditures.

We conducted our audit in accordance with *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 Chicano Latino Affairs Council complied with the provisions of laws, regulations, contracts, and grants that are significant to the audit. The management of the council is responsible for establishing and maintaining the internal control structure and for compliance with applicable laws, regulations, contracts, and grants.

Pursuant to Minn. Stat. Section 3.975, this report has been referred to the Attorney General. The Attorney General has the responsibility to ensure the recovery of state funds and, in fulfilling that role, may negotiate the propriety of individual claims. The Attorney General may also cause criminal proceedings to be instituted by the proper authorities when warranted.

This report is intended for the information of the Legislative Audit Commission and the management of the Chicano Latino Affairs Council. This restriction is not intended to limit the distribution of this report, which was released as a public document on November 10, 1999.

*(signed copy on file)*

James R. Nobles  
Legislative Auditor

*(signed copy on file)*

Claudia J. Gudvangen, CPA  
Deputy Legislative Auditor

End of Fieldwork: September 30, 1999

Report Signed On: November 5, 1999

# Chicano Latino 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
Jeanine Leifeld, CPA	Audit Manager
Pat Ryan	Auditor-in-Charge
Marla Conroy, CPA	Director of Investigations
Patrick Phillips, CPA	Auditor

### **Exit Conference**

The following staff from the Chicano Latino Affairs Council participated in the exit conference held on October 19, 1999:

Ytmar Santiago	Executive Director
Heladio Zavala	Council Chair
Vicki Olivo	Council Treasurer
Larry Dowdle	Department of Administration Financial Management

# Chicano Latino Affairs Council

## Chapter 1. Introduction

The Chicano Latino Affairs Council was created by the Legislature in 1978. The council is responsible for promoting the social, economic, and political development of Minnesota's Chicano/Latino community. The council, which consists of eleven members appointed by the Governor, holds monthly public meetings throughout the state. The council appoints an executive director. James Carlson served as acting director from April through October 1995. Margarita Zalamea served as executive director from December 1995 through September 1998. Irene Gomez-Bethke served as acting executive director from October 1998 to March 1999. Edwina Garcia served as the acting executive director of the council from March to July 1999. In August 1999, Ytmar Santiago became the new executive director of the council.

Table 1-1 summarizes the council's financial activity during fiscal years 1996 through 1999.

	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>
<b>Sources:</b>				
Appropriations	\$246,000	\$248,000	\$300,000	\$305,000
Grant	0	0	0	60,000
Donations	2,381	9,707	30,753	12,285
Balances Forwarded In	20,299	82,378	11,583	47,560
Other	4,850	11,470	0	0
Total	<u>\$273,530</u>	<u>\$351,555</u>	<u>\$342,336</u>	<u>\$424,845</u>
<b>Uses:</b>				
Payroll	\$128,391	\$137,119	\$155,266	\$196,729
Rent	16,124	16,889	18,810	18,489
Per Diems	2,640	6,580	4,345	2,915
Travel	6,176	15,733	22,823	19,610
Professional/Technical Services	6,221	5,772	20,025	21,829
Other Administrative Costs (2)	31,600	129,086	73,507	141,480
Balances Forwarded Out	82,378	11,583	47,560	9,238
Cancellations (3)	0	28,793	0	18,123
Total	<u>\$273,530</u>	<u>\$351,555</u>	<u>\$342,336</u>	<u>\$428,413</u>
Sources Over/(Under) Uses (1)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>(\$ 3,568)</u>

- (1) The council overspent its fiscal year 1999 operating appropriation by \$3,568. See Finding 1 for more information. This table does not reflect potential repayments pursuant to Findings 2, 5, 6, 7, and 10.
- (2) Fiscal year 1999 administrative costs includes \$7,266 in outstanding obligations as of September 23, 1999, and \$3,390 of fiscal year 1999 liabilities paid with fiscal year 2000 funds.
- (3) The majority of the fiscal year 1999 cancellations are a portion of the grant from the Department of Children, Families & Learning. See Finding 13 for more information about this grant.

Source: Minnesota Accounting and Procurement System as of September 23, 1999.

**Chicano Latino Affairs Council**

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## Chapter 2. Financial Management

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### *Chapter Conclusions*

*We found numerous violations of state laws and policies during our audit of the council. The Chicano Latino Affairs Council overspent its fiscal year 1999 operating appropriation by \$3,568. It allowed an employee to receive an unfair benefit of \$3,080 by hiring the employee's husband as a council vendor. The council has a small staff and suffered from a lack of continuity throughout the audit period. Because of this, the council was unfamiliar with certain state procedures for processing some of its transactions, resulting in violations of laws and policies. We also found instances where council expenditures were improperly coded in the accounting system. Finally, the council did not resolve several of its prior audit recommendations.*

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The council has a small staff. The executive director and an office manager perform most administrative functions of the council. During the four-year audit period, the council had two different office managers, one permanent executive director, and three acting executive directors. Pursuant to statute, the Department of Administration provides the council with administrative services. However, Administration's role consists primarily of entering payroll, revenue, and expenditure transactions into the state's accounting system.

### **Objectives and Methodology**

We designed our review of the Chicano Latino Affairs Council's overall financial management to answer the following questions:

- Did the council design and implement internal controls to provide reasonable assurance that its financial activities were properly recorded on the state's accounting system (MAPS) and in compliance with applicable legal provisions and management authorizations?
- Did the council operate within its available resources?

To answer these questions, we reviewed the council's appropriations throughout the audit period. We interviewed council and Department of Administration staff to gain an understanding of the procedures used to process council transactions. We also reviewed the transactions posted to MAPS to determine whether the council properly recorded its expenditure transactions. We reviewed fiscal year 1999 year end invoices to determine whether the council paid them from the proper year's operating appropriation.

## Chicano Latino Affairs Council

As a part of our audit, we obtained sworn testimony from the council's former office manager and the council's former acting executive director. Through this testimony, we gathered information on several of the council's fiscal year 1999 spending decisions.

### Conclusions

We found numerous violations of state laws and policies during our audit of the council. The Chicano Latino Affairs Council overspent its fiscal year 1999 operating appropriation by \$3,568. It allowed an employee to receive an unfair benefit of \$3,080 by hiring the employee's husband as a council vendor. The council has a small staff and suffered from a lack of continuity throughout the audit period. Because of this, the council was unfamiliar with certain state procedures for processing some of its transactions, resulting in violations of laws and policies. We also found instances where council expenditures were improperly coded in the state's accounting system.

The council did not resolve several of its prior audit recommendations. As cited in the Status of Prior Audit Issues section of this report, our prior audit report included seven findings. The council did not attempt to obtain repayment for any of the overpayments identified in the report until June 1999. In addition, many of the control weaknesses and instances of noncompliance identified in the prior report still exist at the council.

#### **1. The council overspent its fiscal year 1999 operating appropriation.**

The council did not adequately monitor its budget during fiscal year 1999. As a result, the council overspent its operating appropriation by \$3,568. This is a violation of Minn. Stat. Section 16A.138, which makes it unlawful to incur indebtedness "in excess of the appropriation made for such purpose." The majority of the overspending consisted of a \$2,251 bill for reemployment insurance benefits from the Department of Economic Security for the period from March through June 1999. The council paid that bill from its fiscal year 2000 operating appropriation. The total of the fiscal year 1999 overspending does not reflect potential repayments pursuant to Findings 2, 5, 6, 7, and 10.

#### *Recommendation*

- *The council should monitor its financial obligations to ensure that expenditures do not exceed appropriation limits in the future.*

#### **2. The council paid an inflated price for services provided by an employee's husband, allowing the employee to receive an unfair benefit.**

The council paid an employee's husband \$4,800 to move the council offices and assemble furniture. Based on an independent bid provided by the Department of Administration's Plant Management moving services, the value of these services was only \$1,720. The council paid an inflated price for the services because of the vendor's relationship with Rachel Ramirez, a council employee. As a result of these transactions, the employee should repay a total of \$3,080.



## Chicano Latino Affairs Council

The council moved to a new suite within the same building in June 1999. According to state procedures, the council was required to obtain at least two bids for the move before selecting a vendor. Council staff told us that they obtained a verbal bid from Plant Management for part of the move, but were not clear as to the total cost of the bid. At that time, the council expressed an interest in obtaining additional bids from private vendors.

On June 23, 1999, the council's acting executive director, Edwina Garcia, signed the first page of a two-page written agreement with Rachel Ramirez's husband to provide moving services. The agreement was not signed by the council chair, as required by Minn. Stat. Section 3.9223, Subd. 5. The agreement included moving freestanding items, assembling modular furniture, and moving certain items so that the landlord could recarpet the council's space. Ms. Garcia told us under oath that, at the time she signed the agreement, she understood the total cost of the move to be \$1,600. The signed page of the agreement states "for an amount not to exceed \$1600.00" The agreement's second page, which was not signed, listed additional costs of \$2,100, for a total cost of \$3,700. Ms. Garcia told us that, at the time she signed the agreement, there were no additional costs associated with the items listed on the second page.

Ms. Garcia approved the first payment to the vendor for \$450. Ms. Ramirez authorized the remaining payments to her husband, the vendor. Ms. Ramirez authorized total payments of \$3,900 to her husband under the original agreement. We provided a copy of the signed agreement for moving costs to the Department of Administration's Plant Management Division and asked for an independent estimate of the cost of the move. Based on the same three items included in the moving agreement, the state movers bid a total of \$1,394 for the service. Mr. Ramirez provided the moving services and should have been compensated for \$1,600 according to the original contract. He should not have received the additional \$2,300 the council paid him.

Ms. Ramirez also authorized her husband to move some boxes from and three furniture items into the new executive director's office at an additional cost of \$900. Plant Management estimated the value of these additional services to be \$120, a difference of \$780. The current executive director, Ytmar Santiago, told us that she did not authorize the employee to purchase these extra moving services and assumed that council staff had moved the items.

The council paid an inflated price for the services because of the vendor's relationship with Ms. Ramirez. The council paid a total of \$4,800 for services worth \$1,720. As a result, Mr. and Mrs. Ramirez personally benefited from the arrangement. Minn. Stat. Section 43A.38 contains the code of ethics for state employees. The code of ethics defines a conflict of interest as:

Use or attempted use of the employee's official position to secure benefits, privileges, exemptions, or advantages for the employee or the employee's immediate family . . . which are different from those available to the general public.

# Chicano Latino Affairs Council

## *Recommendations*

- *The council should work with the Department of Administration to ensure it complies with state bidding procedures.*
- *When an employee has a potential conflict of interest, the council should remove the employee from any involvement in the transaction.*
- *The council should obtain repayment of \$3,080 from Rachel Ramirez for excess payments made to her husband.*

### **3. The council did not comply with applicable state laws and policies when incurring certain expenditures.**

The council did not comply with state laws and policies when making many of its spending decisions. We noted several instances where the council did not follow established laws and policies, including the following:

- The council inappropriately paid per diems to council members who were ineligible due to their employment (Finding 5).
- The council paid expenses for certain council members whose terms had expired (Finding 6).
- The council overpaid council members for certain travel expenses and per diems (Finding 7).
- The council inappropriately allowed employees to use council cellular telephones for personal use (Finding 10).
- The council contracted for certain professional/technical services without complying with applicable state policies (Finding 11).
- The council paid for certain travel expenses in advance, which is not allowed (Finding 11).
- The council did not pay for some invoices within 30 days, as required by the state's prompt payment law (Finding 11).
- The council paid for flowers, a parking ticket, meals, and refreshments, all not normally allowed by state purchasing guidelines (Finding 12).
- The council did not promptly deposit a donation check (Finding 14).

Staff turnover and a lack of continuity in oversight positions contributed to unfamiliarity with state policies and procedures and resulted in inappropriate financial practices.

## Chicano Latino Affairs Council

### *Recommendation*

- *The council should ensure that staff members are properly trained in state policies and procedures and that council disbursements comply with applicable laws and policies.*

#### **4. Some council expenditures were charged to other entities' appropriations or coded to incorrect categories on the state's accounting system.**

The Department of Administration made several coding errors when entering the council's disbursements. Administration's financial management unit is responsible for entering the council's payment transactions into MAPS, the state's accounting system. The council caught and corrected payments incorrectly charged to the council's budget. However, the Department of Administration did not correct certain council expenditures charged to other agencies. For example, in fiscal year 1997, the department used a Council on Black Minnesotans account to pay a \$55 per diem for a Chicano Latino Affairs Council member. In fiscal year 1998, it used a Council on Voyageurs National Park account to pay a council member's per diem and travel expenditures totaling \$240.

In addition, the council inaccurately coded certain expenditure transactions on the state's accounting system. We found several cases where the council used the wrong object of expenditure codes. For example, the council coded some food and equipment purchases as supplies and materials, and seminar fees as travel expenses. Without accurate expenditure coding, the council cannot rely on the underlying accounting data when monitoring its expenditures.

### *Recommendations*

- *The council should work with the Department of Administration to correct the errors in the funding of council expenditures.*
- *The council should ensure that expenditures are accurately coded on the state's accounting system.*

## **Chicano Latino Affairs Council**

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## Chapter 3. Travel and Per Diem Expenses

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### *Chapter Conclusions*

*We found numerous instances where the council paid inappropriate per diem and travel expense reimbursements to council members, resulting in overpayments totaling \$7,800. The inappropriate payments included the following:*

- *The council paid per diems to ineligible council members employed by the state or a political subdivision.*
- *Council members, whose terms had expired, continued to serve and receive per diem and travel expense reimbursements.*
- *The council overpaid one council member for private car mileage.*
- *The council reimbursed one member twice for the same mileage.*

*We also found that the council paid some members per diems for council business beyond the monthly council meetings. These per diem payments were not adequately supported with a reason for the per diem payment, and the council did not have a policy on when council members were eligible to claim per diems beyond the monthly meetings. In addition, the council did not follow proper procedures for notifying the Governor of member vacancies.*

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During the audit period, the council held board meetings at different locations throughout the state. Council members and office staff were eligible for reimbursement of travel costs, including meals, lodging, private car mileage, and certain other expenditures. Council members were also eligible for a daily per diem of \$55.

Prior to the 1996 Legislative Session, Minn. Stat. Section 15.059 governed council member compensation. Minn. Stat. Section 15.059 allowed council members who were state employees or employees of political subdivisions to receive per diem compensation. However, if the major part of their council activities occurred during normal working hours, for which the state or political subdivision compensated them, the employer would deduct the per diem from the employee's compensation for the day.

The 1996 Legislative Session resulted in several changes to the council's authorizing statute (Minn. Stat. Section 3.9223). Laws of 1996, Chapter 420, included changes to the council's name, membership composition, and compensation. The law, which became effective April 3, 1996, stated that Minn. Stat. Section 15.0575 governed the council member's compensation. Minn. Stat. Section 15.0575 prohibits full-time employees of the state or a political subdivision

## Chicano Latino Affairs Council

of the state from receiving per diem compensation, regardless of when the council meets to conduct business. Minn. Stat. Section 15.0575 provides that:

Members of the boards must be compensated at the rate of \$55 a day spent on board activities, when authorized by the board, plus expenses in the same manner and amount as authorized by the commissioner's plan ...Members who are full-time state employees or full-time employees of the political subdivisions of the state may not receive the daily payment, but they may suffer no loss in compensation or benefits from the state or a political subdivision as a result of their service on the board.

### Objectives and Methodology

Our specific objectives for travel and per diem expenditures were to answer the following questions:

- Did the council properly approve and adequately document travel and per diem expenditures?
- Did the council pay travel expense reimbursements and per diems in accordance with employee bargaining agreements and applicable legal provisions?

To achieve this objective, we interviewed council staff to gain an understanding of the process for authorizing and paying travel and per diem expenditures. We reviewed travel and per diem expenditures reimbursed to employees and council members, and a sample of payments made directly to vendors.

On September 16, 1998, the Department of Administration contacted our office with concerns regarding certain council members' per diem payments and expense reimbursement claims. Specifically, the council had discovered that it had not complied with Minn. Stat. Section 15.0575 and had inappropriately paid per diem payments to members who were employed by the state or a political subdivision of the state. The council had stopped paying per diems to the members in question and had sought assistance to resolve the issue. In addition, the council found that members had continued to serve the council after their appointment terms had expired, receiving payment of per diem and travel expense reimbursements. To respond to these specific concerns, we expanded our testing of per diems to ask the following additional questions:

- Did council members who were employed by the state or a political subdivision of the state receive per diem payments?
- Did council members, whose appointment terms had expired, continue to serve and receive per diem and travel expense reimbursements?

To answer these additional questions, we examined documentation prepared by the council summarizing the per diem payments to certain council members for the period April 1996, when the per diem law took effect, through June 1999. We reviewed applicable statutes and state policies regarding per diem payments to council members. We verified council members'

## Chicano Latino Affairs Council

employment dates and determined whether they were full-time employees of the State of Minnesota or a political subdivision of the state. In addition, we reviewed Minnesota statutes regarding filing member vacancy notices with the Secretary of State.

### Conclusions

We found numerous instances where the council paid inappropriate per diem and travel expense reimbursements to council members. These improper payments resulted in overpayments totaling \$7,800. We also found that the council paid some members per diems for council business beyond the monthly council meetings. These per diem payments were not adequately supported with a reason for the per diem payment, and the council did not have a policy on when council members were eligible to claim per diems beyond the monthly meetings. In addition, the council did not follow proper procedures for notifying the Governor of member vacancies

#### 5. The council paid per diems to council members who were ineligible due to their employment.

The council paid five council members per diems when they were ineligible due to their full-time employment with the State of Minnesota, a county, or the University of Minnesota. We found that the council did not have a procedure to gather information on council members' places of employment, including whether the employment was full-time or part-time. The council also did not require members to notify council staff of employment changes during their appointment term.

Minn. Stat. Section 15.0575 prohibits full-time employees of the state, or a political subdivision of the state, from receiving per diem compensation. In an opinion dated April 14, 1977, the Attorney General concluded that a full-time employee of the University of Minnesota was also ineligible, pursuant to Minn. Stat. Sec. 15.0575.

Table 3-1 summarizes the total per diem payments to the ineligible members for the period April 13, 1996, through June 30, 1999.

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**Table 3-1**  
**Per Diem Payments to Ineligible Members**  
**April 1996 through June 1999**

<u>Council Member</u>	<u>Employer</u>	<u>Time Period</u>	<u>Amount</u>
Juan Martinez	Ramsey County	6/96-7/98	\$1,485
Margarita Olivo	Department of Human Rights	4/96-7/98	1,375
Rosita Serrano	Sherburne and Ramsey County	9/96-6/98	1,210
Alma Garay-Lehn	Hennepin County	5/98-8/98	275
Teresa Chapa	University of Minnesota	4/96-5/96	110
<b>Total</b>			<b><u>\$4,455</u></b>

Source: Council member appointment applications and the state's accounting system (MAPS).

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As of November 2, 1999, the council had received repayments of \$1,485 from Mr. Martinez, \$1,375 from Ms. Olivo, \$275 from Ms. Garay-Lehn, and \$110 from Ms. Chapa.

# Chicano Latino Affairs Council

## Recommendations

- *The council should obtain repayment for the per diem payments to members who were full-time employees of the state or a political subdivision of the state.*
- *The council should have a procedure to obtain and monitor council member employment information to ensure compliance with Minn. Stat. Section 15.0575.*

### **6. The council inappropriately paid per diem and travel expense reimbursements to members whose appointment terms had expired.**

The council inappropriately paid two council members per diem and travel expense reimbursements after their appointment terms had expired. The Governor had appointed the members to serve two-year terms, ending January 1998. The two council members continued to serve the council after their terms had expired in January 1998. Minn. Stat. Section 15.0575 provides:

Members may serve until their successors are appointed and qualify but in no case later than July 1 in the year in which a term expires unless reappointed.

Although the Governor subsequently reappointed both members, the effective date of the reappointments was September 15, 1998. As a result, the individuals were not members of the council from July 1 to September 14, 1998. We are questioning the per diem and travel expenses paid to these individuals during this period, as summarized in Table 3-2.

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**Table 3-2**  
**Expenses Paid to Council Members Whose Terms had Expired**  
**July 1, 1998, through September 14, 1998**

<b>Council Member</b>	<b>Per Diem</b>	<b>Travel</b>	<b>Total</b>
Diana Olvedo Munoz	\$110	\$1,628	\$1,738
Juan Rivas	55	1,247	1,302
<b>Total</b>	<b>\$165</b>	<b>\$2,875</b>	<b>\$3,040</b>

Source: Council internal records and the state's accounting system (MAPS).

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## Recommendations

- *The council should work with the Attorney General to determine the extent of repayment from members who continued to receive per diem and travel expense reimbursements after their terms had expired.*
- *The council members and staff should monitor appointment terms when approving per diem and travel claims to ensure compliance with Minn. Stat. Section 15.0575.*



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### **7. PRIOR FINDING NOT RESOLVED: The council overpaid council members for per diems and travel costs.**

The council paid council members for excessive mileage and for duplicate travel expenses. We had similar overpayment findings with other council members in our past two council audit reports.

The council incorrectly reimbursed one council member for excessive local mileage reimbursements. The council member routinely charged 64 miles for a round trip from his home in Stillwater to the council offices in Saint Paul. Based on the official state mileage book, the round trip mileage should have been 36 miles, a difference of 28 miles per round trip. The member's excessive mileage claims resulted in a total overpayment of \$166 over a three-year period.

In addition, one council member was overpaid \$139 because the council reimbursed the member twice for the same mileage to a January 1999 board meeting.

#### *Recommendations*

- *The council should seek reimbursements from council members who were incorrectly reimbursed.*
- *The council should monitor travel reimbursements for correct mileage in accordance with applicable guidelines established by the Department of Finance.*

### **8. The council did not have a formal policy defining the criteria for paying per diems.**

The council did not have a written policy that clearly defined the criteria for paying per diems to council members for activities other than the monthly council meetings. In several cases, council members received per diems for dates other than the regularly scheduled meeting dates or for traveling to council meetings. Council members often did not document the specific meetings or activities attended when claiming per diems on their expense reports.

Minn. Stat. Section 15.059 authorizes the council to pay its members "a rate of \$55 a day spent on council or committee activities." We were told that the council pays its members for attending monthly council meetings and special meetings called by the council. Council staff said per diems were not to be paid for chair-appointed standing committee meetings. However, the council has not established a specific policy on per diems, clearly defining when members can claim per diems for council activities beyond the regularly scheduled council meetings.

#### *Recommendations*

- *The council should establish a written policy authorizing the criteria for paying per diems to its members.*
- *The council members should document the specific activities attended and the purpose of the activity when requesting per diems.*

## Chicano Latino Affairs Council

### **9. The council did not follow proper procedures for notifying the Governor and the Secretary of State of member vacancies.**

We found weaknesses in the council's process for notifying the Governor and the Secretary of State of membership vacancies. We found instances where certain council members did not provide the Governor, Secretary of State, or the council with written letters of resignation. In addition, we could find no evidence that the council chair notified the Secretary of State of these resignations, as required by law.

There are two types of vacancies: scheduled and unscheduled vacancies. Scheduled vacancies are vacancies resulting from the council member's term expiring. Unscheduled vacancies occur when a council member is unable to serve the entire appointment term. Scheduled vacancies occurring in January are monitored by the Secretary of State. The Secretary of State does not require the council to provide notification of these vacancies. For all unscheduled vacancies, the Secretary of State requires notification. The council had nine unscheduled vacancies during the audit period. Minn. Stat. Section 15.0597, Subd. 4, provides:

The chair of an existing agency shall notify the secretary [of State] of a vacancy scheduled to occur in the agency as a result of the expiration of membership terms at least 45 days before the vacancy occurs. The chair of an existing agency shall give written notification to the secretary of each vacancy occurring as a result of newly created agency positions and of every other vacancy occurring for any reason other than the expiration of membership terms as soon as possible upon learning of the vacancy and in any case within 15 days after the occurrence of the vacancy.

Minn. Stat. Section 351.01 requires council members to submit written resignation letters to the Governor, the appointing authority.

Certain council members did not submit written resignation letters to the Governor or the council. The resignations are effective when the Governor receives the letter of resignation. The council relied on the Governor's Office to notify the Secretary of State of the vacancy. We reviewed documentation at the offices of the council, the Secretary of State, and the Governor. The documentation was insufficient to determine whether timely notification was provided to all parties. Without written resignation letters, it was difficult to determine whether the Secretary of State received the notices of vacancy in a timely manner.

#### *Recommendations*

- *The council should encourage members who are resigning to submit written letters of resignation to the Governor. The members should also provide a copy of the resignation letter to the council office.*
- *The council chair should ensure the Secretary of State is properly notified of vacancies pursuant to Minn. Stat. Section 15.0595.*

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## Chapter 4. Administrative Expenditures

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### *Chapter Conclusions*

*We found that the council's payroll expenditures were properly authorized and recorded in the state's accounting system. The council paid its employees in accordance with applicable legal provisions. The council made rent payments in accordance with valid lease agreements.*

*We found that the council did not comply with state policies when purchasing goods and services, including the following:*

- *The council allowed employees to use council cellular telephones for personal use.*
- *The council paid for flowers, a parking ticket, meals, and refreshments, which are normally not allowed by state purchasing guidelines.*
- *The council did not comply with local purchasing authority limits when purchasing professional/technical services and goods.*
- *The council chair did not sign certain contracts as required by statute.*
- *The council paid for certain travel costs in advance, which is not allowed by statute.*
- *The council did not pay for some invoices within 30 days, as required by the state's prompt payment law.*

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The Chicano Latino Affairs Council incurred payroll and other administrative expenditures to carry out its mission. The council staff consisted of four full-time positions. The council used the state's personnel and payroll systems. The council's employees submitted biweekly timesheets to the Department of Administration for input into the state's payroll system. Payroll expenditures for the four years ended June 30, 1999, totaled \$617,505.

The Chicano Latino Affairs Council purchased supplies and equipment for its operations and contracted for various professional/technical services, including administrative and technical support. The council also used an employee search firm in fiscal year 1999 to aid them in a search for a new executive director.

The Department of Administration has statutory authority to coordinate the purchase of goods and services for state agencies. The department controls state agency purchases in various ways. The department's Materials Management Division (MMD) establishes local purchase authority

## Chicano Latino Affairs Council

for state agency employees. After MMD's local purchase authority training, this designated employee can, within specified limits, purchase certain types of goods and services for the agency. (A major exception is the authority to purchase professional/technical services.) During fiscal year 1999, the council had one employee with local purchase authority for purchases of up to \$1,500.

Table 4-1 shows the council's administrative expenditures for the audit period.

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**Table 4-1**  
**Administrative Expenditures**  
**For the Four Fiscal Years Ending June 30, 1999**

	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>
Payroll	\$128,391	\$137,119	\$155,266	\$196,729
Rent	16,124	16,889	18,810	18,489
Travel and Per Diems (1)	8,816	22,313	27,168	22,525
Professional Technical Services	6,221	5,772	20,025	21,829
Communications	9,505	14,188	18,839	23,922
Supplies and Equipment	4,404	31,064	14,954	33,430
Other (2)	<u>17,691</u>	<u>83,834</u>	<u>39,714</u>	<u>84,128</u>
<b>Total</b>	<b><u>\$191,152</u></b>	<b><u>\$311,179</u></b>	<b><u>\$294,776</u></b>	<b><u>\$401,052</u></b>

(1) Our conclusions on travel and per diems are in Chapter 3.

(2) Fiscal year 1999 other administrative costs included \$7,266 in outstanding obligations as of September 23, 1999, and \$3,390 of fiscal year 1999 liabilities paid with fiscal year 2000 funds.

Source: Minnesota Accounting and Procurement System (MAPS).

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## Objectives and Methodology

Our specific objectives for payroll expenditures were as follows:

- Were payroll expenditures properly authorized, adequately supported, and properly reported on the state's accounting system?
- Were council employees paid in accordance with applicable bargaining agreements and legal provisions?

Our specific objectives for the review of purchased goods and services, including rent, were as follows:

- Did the council purchase goods and obtain services that were consistent with its duties and in compliance with state purchasing guidelines?
- Did the council pay rent based on valid lease agreements?
- Did the council obtain goods and professional/technical services in accordance with state policy?
- Did council employees make personal calls on state provided cellular telephones?

To achieve these objectives, we interviewed the council and Department of Administration staff to gain an understanding of policies and procedures relating to payroll and to purchasing and

## Chicano Latino Affairs Council

paying for goods and services. We performed analytical procedures on payroll transactions and reviewed personnel records and bargaining agreements. We also performed analytical procedures on rent payments throughout the audit period.

We reviewed documentation supporting expenditures for purchased goods and services, including significant professional/technical service contracts. We also reviewed the council's cellular telephone bills for May and June 1999, the two months of highest cell phone usage during the audit period. We analyzed phone usage for that time period and determined the extent of personal use.

### Conclusions

Payroll expenditures were properly authorized, adequately supported, and properly recorded on the state's accounting system. Council employees were paid in accordance with applicable bargaining agreements and legal provisions. The council paid rent in accordance with valid lease agreements. However, we found numerous instances where the council did not comply with state policies when purchasing goods and services.

#### **10. The council inappropriately allowed employees to use council cellular telephones for personal use.**

The council allowed employees to make personal calls on state provided cellular phones. Department of Finance policy number 0807-04 states "Cellular telephones are for state use only." Pursuant to this policy, cellular telephones paid for by the council should be used for business purposes and not be routinely used to make or receive personal calls. Minn. Stat. Section 43A.38, Subd 4, further states:

An employee may use state time, property, or equipment to communicate electronically with other persons including, but not limited to, elected officials, the employer..., provided this use, including the value of the time spent, results in no incremental cost to the state or results in an incremental cost that is so small as to make accounting for it unreasonable or administratively impracticable.

The council had five cellular telephones during fiscal year 1999. All of the phones were used to make personal calls. We analyzed the council's May and June 1999 cellular telephone bills. Table 4-2 shows the amount of personal usage for each telephone during the two-month period. It also shows the incremental cost to the state, pursuant to Minn. Stat. Section 43A.38. As Table 4-2 shows, the majority of minutes the council employees used were for personal calls.

# Chicano Latino Affairs Council

**Table 4-2  
Cellular Telephone Usage  
May and June 1999**

<u>Telephone</u>	<u>Total Minutes Used (1)</u>	<u>Personal Minutes Used (2)</u>	<u>Incremental Cost to the Council (3)</u>
1	50	3	\$ 2
2	4,316	3,146	443
3	543	113	1
4	305	114	0
5	<u>2,190</u>	<u>1,010</u>	<u>86</u>
Total	7,404	<u>4,386</u>	<u>\$532</u>

- (1) Each telephone was allowed a total of 380 free minutes per month for the flat monthly fee of \$49.99. In addition, each telephone had a total of 500 free minutes off peak (evening and weekends) per month for a monthly fee of \$4.99. The council was charged for each additional minute used. The council's plan also provided the first minute of each incoming call free of charge.
- (2) The personal minutes total generally includes calls made or received outside of normal working hours.
- (3) The incremental cost to the state are charges incurred by the council when usage exceeded the free minutes allowed for under the cellular telephone plan. The amounts do not reflect applicable taxes and surcharges.

Source: Auditor analysis of May and June 1999 cellular telephone statements.

### *Recommendations*

- *The council should not allow state cellular telephones to be used for personal use when there is an incremental cost to the council.*
- *The council should obtain reimbursement for the cost of the employees' personal calls using council cellular telephones.*
- *The council should only issue cellular telephones to employees who can demonstrate a business need for a cellular phone.*

### **11. The council did not comply with state purchasing policies and legal provisions.**

The council did not follow proper procedures when making certain purchases. The council did not comply with local purchasing authority limits, did not negotiate contracts when required, and did not have the council chair approve all contracts. We found the following instances of non-compliance:

- The council entered into a \$20,000 contract with a search firm in February 1999 without proper authorization. The contract, to help in the search for a new executive director, called for a fixed fee of \$20,000 and provisions for the reimbursement of travel and other miscellaneous expenses. According to state policy, the council did not have the authority to enter into a contract of that magnitude without the Department of Administration's approval. Administration requires agencies entering into contracts of \$5,000 or greater to complete a Contract Certification Form and obtain the approval of the Commissioner of Administration before proceeding with the contract process. The council did not complete this form or obtain the approval of the Commissioner of Administration. In

## Chicano Latino Affairs Council

June 1999, the council became aware of the state contracting requirements and requested the contract be halted. The council paid the search firm a total of \$13,975.

- The council chair did not approve all council contracts, as required by law. Minn. Stat. Section 3.9223 requires the council chair and the executive director to execute all contracts. In three cases during the audit period, the council chair did not sign the contract. In the two previous audits of the council, we had also found that the chair did not routinely sign council contracts.
- The person responsible for purchasing at the council initiated purchases exceeding her \$1,500 spending limit. According to state policy, the Department of Administration delegates local purchase authority to individual employees within an agency up to a specified dollar limit. In fiscal year 1999, only one council employee had local purchase authority, with a dollar limit of \$1,500 per purchase. In several instances, this individual authorized the purchase of goods and services in excess of the approved limit without Administration approval.
- The council had several vendor credit cards. It appears that council staff often made purchases from vendors using a council credit card, rather than following state bidding and purchasing procedures. In several cases, council staff made purchases that exceeded the council's local purchasing authority by using a credit card. For example, the council office manager used a credit card to purchase \$2,424 in office furniture at a local office supply store in July 1999, without following proper bidding procedures.
- The council prepaid invoices for hotel rooms prior to receiving the services. Minn. Stat. Section 16A.41 requires that claims against the state may not be paid unless the goods or services have been received. In May 1998, the council paid an advance deposit of \$7,434 for hotel rooms to be used by council members and staff in July 1998.
- The council did not comply with the state's prompt payment law. Minn. Stat. Section 16A.124 requires state agencies to pay for undisputed billings "within 30 days following receipt of the invoice, merchandise, or service, whichever is later." In several cases, the council did not make payments within 30 days.

### *Recommendations*

- *The council should work with the Department of Administration to ensure it makes purchases in accordance with state policy and applicable legal provisions.*
- *The council should comply with Minn. Stat. Section 3.9223 by requiring the council chair to sign all contracts or should consult with the Attorney General's Office to determine whether the council chair can delegate the approval of small contracts to the executive director.*
- *The council should discontinue using vendor credit cards for local purchases.*
- *The council should comply with the state's prompt payment law.*

## Chicano Latino Affairs Council

### **12. The council paid for expenditures not normally allowed by state purchasing guidelines.**

The council made several expenditures not normally allowed by state purchasing guidelines. These expenditures included meals and refreshments, a parking ticket, and flowers.

The council routinely paid for food and refreshments for council meetings. The council also hosted other events, including a 1995 reception for the council's new executive director costing \$1,072, a 1999 reception for the Governor costing \$1,125, and a youth leadership conference. The council is prohibited by state policy from providing food to its employees or council members who are not in travel status without the council having a special expense plan on file. The Department of Employee Relations' Administrative Procedure 4.4 identifies "special expenses" as those expenses incurred in connection with official functions of an agency or assigned duties of state employees which are not normally reimbursable through regular expense regulations. The policy requires that before an agency incurs special expenses, it must develop a written plan describing the types of special expenses that will be incurred. The plan must be submitted to the Department of Employee Relations and the Department of Finance for review and approval. The council did not have a special expense plan on file during the audit period; neither did the council seek one-time special expense approval for the receptions and conferences it hosted.

The council purchased food for employee lunches and staff meetings. In some cases, council staff had "working lunches" at an area restaurant and the council paid for the food. On at least two occasions, the council paid for pizzas and soft drinks to be delivered to the council offices with no indication of non-employees being present. We found that the council paid for one of the pizza lunches twice, resulting in an overpayment of \$24. The council also paid for treats to be brought into the office for staff and others. According to the state's special expense policy, reasonable meal costs include "full cost of a meal when it is a part of the structured agenda of a conference, workshop, seminar, or meeting . . ." or "a department wide annual/quarterly staff meeting for all employees." The policy limits these meetings to no more than once each quarter. The policy also cautions that "all meetings shall be scheduled to minimize inclusion of meals."

The council also paid for a parking ticket on a state vehicle. In March 1999, a state vehicle rented by the council received a \$15 parking ticket for overtime parking. The council was unable to determine who was responsible for receiving the ticket. In May 1999, the council instructed the Department of Administration to process the payment. Because the ticket was not paid promptly, late fees accrued, increasing the fine amount to \$70. The State of Minnesota Travel Policy specifically forbids the payment of parking tickets using state funds.

Finally, on several occasions, the council purchased balloons and flowers. It is not clear for whom the council purchased these items. The council is not allowed to purchase flowers, except in limited cases pursuant to an approved special expense plan.



## Chicano Latino Affairs Council

### *Recommendations*

- *The council should develop a special expense plan and submit it to the Departments of Employee Relations and Finance for review and approval.*
- *The council should not use state funds to make unallowable purchases.*
- *The council should resolve the overpayment to the pizza vendor.*

## **Chicano Latino Affairs Council**

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## Chapter 5. Revenues

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### *Chapter Conclusions*

*The Chicano Latino Affairs Council did not adequately fulfill its fiscal year 1999 grant contract with the Department of Children, Families & Learning to establish a clearinghouse of best educational practices and shared decision making for improving student performance.*

*The council properly deposited grant and donation revenues. Revenues were adequately safeguarded and recorded on the state's accounting system. However, the council did not deposit a \$5,000 donation check promptly as required by Minn. Stat. Section 16A.275.*

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The Chicano Latino Affairs Council receives a General Fund appropriation each year to carry out its mission. It also has the authority to pursue grants and donations. In fiscal year 1999, the council received a \$60,000 grant from the Department of Children, Families & Learning. The purpose of the grant was to establish a clearinghouse of best educational practices and shared decision making for improving student performance. The grant agreement expired on June 30, 1999. Before the final \$2,000 in grant funds was released, the council was required to provide a report on how the funds were used and the impact on schools and students.

Table 5-1 summarizes the revenue activity of the council for the four fiscal years ended June 30, 1999.

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**Table 5-1**  
**Revenues by Source**  
**For the Four Fiscal Years Ended June 30, 1999**

	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>
Grant	\$ 0	\$ 0	\$ 0	\$60,000
Donations	2,381	9,707	30,753	12,285
Other	4,850	11,470	0	0
Total	<u>\$7,231</u>	<u>\$21,177</u>	<u>\$30,753</u>	<u>\$72,285</u>

Source: Minnesota Accounting and Procurement System.

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Donations were received in the council office and forwarded to the fiscal services section of the Department of Administration for deposit and posting to the state's accounting system.

### **Objectives**

We designed our review of revenues to answer the following questions:

## Chicano Latino Affairs Council

- Did the council safeguard, deposit, and accurately record revenues on the state's accounting system in compliance with applicable legal provisions?
- Did the council properly administer the grant from the Department of Children, Families & Learning during fiscal year 1999?

To answer these questions, we reviewed procedures over revenue collection, processing, and depositing. We tested transactions to determine if the council accurately deposited and recorded the transactions on the MAPS accounting system.

We reviewed the grant agreement for the fiscal year 1999 grant from the Department of Children, Families & Learning. We reviewed the grant terms and the expenditures charged to the grant to determine if the council complied with the grant agreement.

### Conclusions

The Chicano Latino Affairs Council did not adequately fulfill its fiscal year 1999 grant contract with the Department of Children, Families & Learning to establish a clearinghouse of best educational practices and shared decision-making for improving student performance.

The council properly deposited grant and donation revenues. The council adequately safeguarded its incoming receipts and recorded them properly on the state's accounting system (MAPS). However, the council did not deposit a \$5,000 donation check promptly, as required by Minn. Stat. Section 16A.275.

### **13. The council did not adequately fulfill its grant contract with the Department of Children, Families & Learning.**

The council did not comply with the terms of its fiscal year 1999 grant agreement with the Department of Children, Families & Learning (CFL) to establish a clearinghouse of best educational practices and shared decision making for improving student performance.

In the 1998 Legislative Session, the CFL received an appropriation to establish “a clearinghouse of best educational practices and shared decision-making for improving student performance, particularly for at-risk students.” As part of the authorizing legislation, CFL was required to collaborate with community stakeholders, including the Chicano Latino Affairs Council. CFL subgranted \$60,000 from this appropriation to the council. The contract was effective on October 15, 1998, and ended on June 30, 1999. The contract required the council to prepare and implement a plan. Specifically, the plan was to address the following items:

- Establish a liaison between the council and the Implementation Support Team Teachers and the Minnesota Educational Effectiveness Program coordinators.
- Disseminate research and other information regarding best practice to support the learning of students and access to the schools.

## Chicano Latino Affairs Council

- Increase parent/primary caregiver support of student learning.
- Evaluate the effectiveness of implementation of its plan.

The council prepared the plan and hired two education liaisons to carry out its provisions. The council used \$41,881 of the grant proceeds. It cancelled the remaining \$18,119 at the end of the contract period.

Rather than producing a comprehensive best practices document, the council ultimately concluded that its communities “often lacked sufficient knowledge and have limited accessible resources regarding education in this state.” As a result, the council concentrated its efforts on outreach, including translation of newspaper articles and newsletters, preparing posters, and buying books for a potential lending library within the council offices. The council included a discussion of these new objectives in its evaluation report to CFL. CFL staff told us that they agreed with the council’s change in focus.

However, the council never completed its proposed outreach efforts. As of September 24, 1999, it had not distributed any of the posters produced as a part of the grant contract. The posters cost nearly \$8,000 to produce. In addition, the council purchased about \$3,000 in books and CDs, of which \$1,600 came from the grant. Despite these purchases, the council had not set up the lending library as planned. The current executive director stated that the council does not have the ongoing staff resources to sustain such a library.

### *Recommendation*

- *The council should work with CFL to determine the disposition of the posters and books purchased as part of the grant.*

## **14. The council did not promptly deposit a donation check.**

The council received a \$5,000 donation from a foundation on March 16, 1999, to help fund its search for a new executive director. The check was deposited into the state treasury 44 days later, on April 30, 1999. Minn. Stat. Section 16A.275 requires agencies to deposit receipts daily if they total \$250 or more. Daily deposit of receipts minimizes the risk that funds could be lost or stolen.

### *Recommendation*

- *The council should ensure that all receipts are properly deposited in accordance with Minn. Stat. Section 16A.275.*

## **Chicano Latino Affairs Council**

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### Status of Prior Audit Issues As of September 30, 1999

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**June 25, 1996, Legislative Audit Report 96-27** covered the two fiscal years ending June 30, 1995. The audit scope included payroll expenditures, contractual services, administrative expenditures, and gift and grant revenues. The report had seven findings. Three of the audit findings related to overpayments. In June 1999, the council initiated action on these recommendations. It sent letters to those overpaid, attempting to obtain repayments. We had also found similar travel overpayments in our audit of the council for fiscal years 1991 to 1993. During our current audit, we again found overpayments to council members and staff. See Chapter 3, Finding 7 for more details.

The prior audit stated that the council did not comply with certain legal requirements when setting up some professional/technical contracts. That finding also appeared in our audit report covering fiscal years 1991-1993. As cited in Chapter 4, Finding 11, we found related problems with the council's purchasing procedures during the current audit.

The council adequately resolved the remaining prior audit issues.

#### **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.

## Chicano Latino Affairs Council

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# CHICANO LATINO AFFAIRS COUNCIL

STATE OF MINNESOTA

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November 5, 1999

James R. Nobles  
Legislative Auditor  
Office of the Legislative Auditor  
Centennial Building, First Floor  
658 Cedar Street  
St. Paul, MN 55155

RE: Response to Legislative Audit Report

Dear Mr. Nobles:

Enclosed is the reponse to the legislative audit conducted by your office of the Chicano Latino Affairs Council for the period of July 1, 1995, through June 30, 1999. As your report indicates, I have been executive director since August of 1999, therefore, I was not a staff member of the council during the period of time your office conducted the audit. Because all the incidents occurred and all decisions were made, before I joined the council, the primary focus of this response is the operational and policy changes that have been implemented to correct and prevent future occurrences. I trust that your office and the Legislative Audit Commission will give more weight to the steps the council has taken since I was appointed executive director to address the concerns and eliminate the problems reported, than to the incidents that are pointed out in the report.

Sincerely,

*(signed copy on file)*

Ytmar Santiago, Esq.  
Executive Director

Enclosure (1)

## **CHAPTER 1 – Introduction**

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The council appointed a permanent executive director, Ytmar Santiago, on August 4, 1999, after the audit had been conducted. After reviewing the status of the office in general, the executive director reported to the Board some concerns regarding budget issues and staff misconduct. The Board gave the director authority to make the necessary internal operational changes to correct the situation and report the findings to the appropriate government agencies. As a result, the Office of the Legislative Audit reopened its inquiry. The audit was finally closed on September of 1999. The auditors received full cooperation from the executive director and the board members.

## **CHAPTER 2 – Financial Management**

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### **1. The council overspent its fiscal year 1999 operating appropriation.**

During this audit period, the council experienced a high turnover of staff. In addition, a new financial system was implemented. This resulted in an inaccurate report to the Board that there was a surplus in the operational budget. Authorized additional expenditures were based on incorrect information.

The council has implemented a monitoring and reporting system where staff will issue monthly reports to the executive director which will reflect the expenditures and any deposits. The executive director compares the internal report with the monthly budget report issued by the Department of Administration. The executive director provides a monthly budget report to the Board treasurer who then reports to the Board during the monthly Board meetings.

Regular purchases are monitored on a monthly basis. Extraordinary purchases will be closely monitored and justified before incurring the expense. With these new systems in place, the council will not overspend its appropriation in the future.

### **2. The council paid an inflated price for services provided by an employee's husband, allowing the employee to receive an unfair benefit.**

We admit that proper contracting procedures were not followed, which resulted in this finding. The employee referred to in the Audit Report is no longer employed by the council and this matter has been referred to the attention of the attorney general. We will proceed in accordance with the advise of the attorney general in regard to any request for repayment recommended by the auditors.

Several changes have been implemented by the new administration. No contract will be sent for processing unless it has been approved as required by law. The council has implemented policies and procedures to prevent that a single employee has authority to contract for services and pay for those services at the same time.

The executive director has regular staff meetings with current staff to discuss operational matters. She has reviewed with staff the state policies on conflict of interest and government procurement procedures. All contracting and expenditures are closely monitored by the executive director. All contracts are to be approved by the Board, signed by the Board chair and the executive director.

**3. The council did not comply with applicable state laws and policies when incurring certain expenditures.**

Although the expenses in question were allowable, the procedure delineated by statute was not followed, thus reflecting non-compliance on the part of the council. Council staff have been instructed in state law, policies and procedures regarding expenses and depositing money within the state guidelines. The council will submit an expense plan, when appropriate, to prevent the recurrence of inappropriate expenditures.

Council staff no longer have unlimited access to cellular telephones. Out of a total of five cellular telephones, three were cancelled by the executive director before the audit report was issued. Two remain active, one that is assigned to the executive director and one as a backup or for staff who travel outstate. Both of these cellular telephones are to be used only when necessary for job related purposes. Staff have been instructed in the Use of State Property policy. Since August of 1999, there has already been a considerable reduction in the cellular telephone bill.

Concerning the issue of late payments, all invoices are opened and date-stamped the same day they are received. Per prompt payment law requirements, all invoiced bills are currently paid within 30-days of the date of receipt, unless there is a discrepancy or dispute.

Per diems and expense reimbursement requests are closely monitored and reviewed by the executive director and the board chair. The Board will implement a policy whereas every six (6) months board members will report their current home and employment address and occupation. This form will be used to establish the correct mileage amount and the board member's eligibility for per diems. The forms will be filed at the council office and will be used to monitor all expense reimbursement requests along with minutes of meetings. Per diem requests now have to be completed at the end of every meeting and submitted for review.

**4. Some council expenditures were charged to other entities' appropriations or coded to incorrect categories on the state's accounting system.**

All budget reports sent to the council are generated by the Department of Administration. The council advised the Department of Administration of expenses that had been incorrectly charged to the council account and which belonged to another agency. The council's administrative assistant will continue to monitor the coding and inform the executive director when errors are detected. The Department of Administration will submit a separate response to this finding.

**CHAPTER 3. Travel and Per Diem Expenses**

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**5. The council paid per diems to council members who were ineligible due to their employment.**

In April of 1996, there was a change in the council's enabling statute. Both council staff and board members were unaware that this change had altered the way board expenses were to be reimbursed. In July of 1998, the Board asked staff to research applicable laws affecting the council in preparation for a board retreat. While conducting this research, council staff learned that the Board had been

operating under the old statute. When the Board was informed of this issue, immediate steps were taken to prevent additional errors. The Board contacted the Office of the Attorney General, the Appointment's Commission and the Department of Administration. The Board also called for an independent audit in an attempt to correct the situation.

Inappropriate payments were made on several occasions due to confusion about the applicability of the statute. The council has implemented changes to ensure that such incidents do not happen again. A file will be maintained and revised regularly where the board members' place of employment and occupation will be recorded. The Board will continue to work closely with the attorney general to ensure that they are advised regarding the correct interpretation of applicable law. The Board has updated its manual and has instituted continuing formal board member training on applicable laws. New board members participated in the Governor's new board member orientation. The council will work and follow the advise of the attorney general regarding reimbursement of funds.

**6. The council inappropriately paid per diem and travel expense reimbursement to members whose appointments had expired.**

Although board members served in good faith until they were re-appointed or their successors appointed, we acknowledge the fact that some inappropriate payments were made. Changes have been implemented and the Board will closely monitor itself regarding the terms and expiration date of each member's appointment.

As stated before, the Board has implemented training and policies and procedures to prevent that unallowable per diems and expenses are paid.

**7. PRIOR FINDING NOT RESOLVED: The council overpaid members for per diems and travel costs.**

After the council was advised of overpayments, staff sent written notices to obtain reimbursement as recommended by the attorney general. The council has established procedures to verify the expense reports submitted by board members and to prevent overpayments. The council will require that board members submit documentation to prove that they are conducting the council's business when they request per diem for any other meeting outside the regular monthly meeting.

**8. The council did not have a formal policy defining the criteria for paying per diems.**

The Board did not have a policy that clearly defines when members can claim per diems for council activities beyond the regularly scheduled meetings. The current Board has referred the matter to the governance committee so they can decide on a written policy which authorizes the criteria for paying per diems as recommended by the auditors. All council activities will be documented with an agenda, sign-in sheets and minutes to make sure that the meeting is related to council's business.

**9. The council did not follow proper procedures for notifying the Governor and the Secretary of State of member vacancies.**

During the audit period, the council was in constant contact with the Governor's Appointment Commission regarding vacancies within the council board. The board chair met with the Governor's staff on numerous occasions in an effort to fill the vacancies.

The council will keep a file on board members and their terms as well as information on their employment. The council will notify all scheduled and unscheduled vacancies to the appropriate government entities. Procedures to track board members' appointments, their expiration dates and announcements of vacancies are in the process of being implemented.

**CHAPTER 4 – Administrative expenditures**

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**10. The council inappropriately allowed employees to use council cellular telephones for personal use.**

The current executive director has implemented controls regarding the use of state property, including cellular telephones. The council does not allow state cellular telephones for personal use where it will result in an incremental cost to the state. Since August of 1999, only the executive director has an assigned cellular telephone, which is only used to conduct state business. All other existing cellular telephones, with the exception of a backup unit, have been cancelled. The council will refer the reimbursement recommendation to the attention of the attorney general, and will proceed according to their advise and counsel.

**11. The council did not comply with state purchasing policies and legal provisions.**

Council staff have been instructed in the State purchasing and procurement policies and procedures. The council will submit an expense plan, when appropriate, to prevent inappropriate expenditures.

**12. The council paid for expenditures not normally allowed by state purchasing guidelines.**

Although some of the expenses in question were allowable, the procedure delineated by statute was not followed, thus reflecting non-compliance on the part of the council.

Regarding the Governor's reception in 1999, board members received innacurate information from staff when they asked if all state financial requirements had been met. During the February 12, 1999 board meeting to discuss the proposed reception, the Board instructed council staff to ensure that financial services' policies were followed. The minutes reflect the concern of board members regarding the money for the reception. After a motion was made to proceed with the reception, boardmembers Garay-Lehn and Olivo requested information pertaining to the funding of the event. The vote reflects authorization to proceed with the reception pending clearance from finance. Sometime after the meeting, staff advised the Board that finance had approved of the reception.

Council staff have been instructed in the State law, policies and procedures regarding expenses and depositing money within the state guidelines. The council will submit an expense plan to the

Departments of Employee Relations and Finance for their review whenever the need arises to incur special expenditures. The issue of overpayment will be referred to the attention of the attorney general and the council will proceed according to their advise and counsel.

**13. The council did not adequately fulfill its grant contract with the Department of Children, Families and Learning.**

After the initial plan was submitted, the council recommended to the Department of Children, Families and Learning a change in the focus of the study, which was discussed with Department officials. The Department accepted the change in focus, therefore, the council proceeded with the use of the grant as agreed. The Department accepted the council's final report on the use of the grant. Due to staff turnover, the council has not been able to complete the details submitted in the final report.

The council will work with the Department of Children, Families and Learning to determine the disposition of the posters that were generated and the way to use the books purchased, to better serve the Latino community.

**14. The council did not promptly deposit a donation check.**

Staff have been instructed in applicable state policies and procedures. The council is currently following the procedures established by the Department of Administration regarding deposit of funds. The council will continue to work closely with the Department of Administration to ensure that all policies and procedures are followed.



November 1, 1999

**Commissioner's Office**  
**200 Administration Building**  
**50 Sherburne Avenue**  
**St. Paul, MN 55155**  
**Voice: 651.296.5857**  
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James R. Nobles, Legislative Auditor  
First Floor South, Centennial Building  
658 Cedar Street  
St. Paul, MN 55155

Dear Mr. Nobles:

Thank you for the opportunity to review and respond to your financial-related audit of the Chicano Latino Affairs Council, for whom, pursuant to statute, we provide administrative services.

Our role with the Chicano Latino Affairs Council is to process financial and payroll transactions into the state's accounting system, and to provide financial and human resources information and consultation when necessary or requested. We provide information, reports and consultation to the council on a regular basis and periodically meet to review financial conditions. In the past year, in addition to our regular contacts with the council, we provided supplementary information on special expenses, mileage reimbursement, depositing of receipts, Web TV guidelines, ethics on usage of the Internet, and conflict of interest.

During the audit period, the council had two of their office staff trained by Department of Administration's Materials Management Division on the purchasing function, including certification for local purchase authority. The trained staff authorized purchase orders and approved invoices for entry into the state accounting and procurement system by the Department of Administration. We worked with the council when questions or concerns arose during this process.

There are specific recommendations in your report for the council to work with the Department of Administration to ensure compliance with purchasing procedures and legal provisions, to correct expenditure errors, and to ensure accuracy in expenditure recording. We are committed to working with the new executive director and staff of the council in all of these areas. We will coordinate purchasing training for council staff, set up an accounts receivable process for the reimbursements indicated in your report, work with council staff on payment coding and processing, assist the council in developing internal control procedures, and continue to be available for consultation and assistance on budget, expenditure, personnel and payroll matters.

Sincerely,

*(signed copy on file)*

Larry Freund  
Financial Management Director