



OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

FINANCIAL AUDIT DIVISION REPORT

**General Obligation Bond
Expenditures**

Internal Control and Compliance Audit

December 5, 2008

Report 08-34

FINANCIAL AUDIT DIVISION

Centennial Building – Suite 140

658 Cedar Street – Saint Paul, MN 55155

Telephone: 651-296-4708 • Fax: 651-296-4712

E-mail: auditor@state.mn.us • Web site: <http://www.auditor.leg.state.mn.us>

Through Minnesota Relay: 1-800-627-3529 or 7-1-1



OFFICE OF THE LEGISLATIVE AUDITOR

State of Minnesota • James Nobles, Legislative Auditor

December 5, 2008

Representative Rick Hansen, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Tom Hanson, Commissioner
Department of Finance

This report presents the results of our internal control and compliance audit of general obligation bond expenditures authorized by *Laws of Minnesota* 2006, Chapter 258, and expended through March 31, 2008. Our scope included the Department of Finance, as well as other state agencies and entities responsible for administering the expenditures authorized by the 2006 law.

Our fieldwork ended on August 15, 2008, and we discussed the results of the audit with officials at the Department of Finance on November 21, 2008. The audit was conducted by Jim Riebe, CPA (Audit Manager), Amy Jorgenson (Auditor-in-Charge), David Westlund (Lead Worker), and assisted by auditors Steve Johnson, Jamie Majerus, Chau Nguyen, Kathy Rootham, Pat Ryan, Debra Sakrison, and Paul Thompson. For projects administered by the University of Minnesota, we relied on audit procedures performed by the university's Office of Internal Audit.

We received the full cooperation of the Department of Finance and the other entities included in our scope, and we thank them for their assistance.

/s/ James R. Nobles

James R. Nobles
Legislative Auditor

/s/ Cecile M. Ferkul

Cecile M. Ferkul, CPA, CISA
Deputy Legislative Auditor

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Report Summary

Conclusions

Generally, the Department of Finance and other entities had adequate internal controls over their use of proceeds from general obligation bonds. These controls ensured that the entities safeguarded resources, complied with applicable finance-related legal requirements, and produced reliable financial data. However, all of the entities could have benefited from additional guidance and oversight from the Department of Finance.

Most of the expenditures we tested (selected from a population of \$385 million of expenditures) complied with applicable legal requirements; however, tested transactions totaling approximately \$1.5 million of expenditures did not or may not have complied.

Key Findings

- The Department of Finance did not sufficiently oversee projects funded with bond proceeds to ensure compliance with all legal requirements. ([Finding 1, page 5](#))
- State agencies and other Minnesota government entities used approximately \$806,000 for project costs that were not appropriate uses of bond proceeds. ([Finding 2, page 8](#))
- The Minnesota Zoo may not have complied with restrictions on bond funds designated for asset preservation for some expenditures, and did not submit reports on asset preservation projects to the Legislature, as required by statute. ([Finding 3, page 9](#))
- Some entities used bond funds for internal project management costs without clearly connecting those costs to authorized capital projects. ([Finding 4, page 10](#))
- The Minnesota State Colleges and Universities' use of general obligation bond proceeds for the purchase and lease-back of a building may not comply with state constitutional and other legal requirements. ([Finding 5, page 12](#))

Audit Objectives and Scope

Objectives

- Internal Control and Legal Compliance

Scope

- Capital project expenditures through March 31, 2008, that were authorized by [Laws of Minnesota](#) 2006, Chapter 258, and administered by multiple executive branch agencies, other Minnesota government entities, and the Minnesota Historical Society.

Background

[Laws of Minnesota](#) 2006, Chapter 258, authorized approximately \$1 billion in spending for capital projects. In accordance with the [Minnesota Constitution](#), these projects were typically for construction of new buildings, bridges, and roads; purchase or betterment of publicly owned land by state agencies and political subdivisions; or asset preservation projects to maintain the buildings and land already owned.

Background

The *Minnesota Constitution* authorizes the state to incur public debt for limited, specified purposes.¹ The specified purposes include “public improvements of a capital nature,” such as the construction of new buildings, bridges, and roads; the purchase and betterment of publicly owned land; and asset preservation to maintain the buildings and land the state and its political subdivisions already own. Under this authority, the Minnesota Legislature enacts laws (often called “bonding bills”) that authorize specific projects to be funded with general obligation bond proceeds. The Department of Finance² periodically issues bonds to pay for the projects. As of June 30, 2008, the state had approximately \$4.3 billion of general obligation bonds outstanding.

The Department of Finance establishes each project authorized by a bonding bill in the state’s accounting system under the control of the agency overseeing the project. State agencies use the state’s accounting system to either directly spend the bond funds as a project progresses or to reimburse political subdivisions for capital project expenditures managed at the local level. Other Minnesota government entities, such as the Metropolitan Council and the University of Minnesota, use their own accounting systems to make project payments, but those entities request bond funds from the Department of Finance as needed to cover project costs. In all cases, the entity directly responsible for a capital project is responsible to have effective financial controls in place to safeguard the bond funds and ensure that expenditures comply with all legal requirements.

The Department of Finance also has important roles and responsibilities throughout the state’s capital budgeting, bonding, and expenditure process. The department provides instructions to state agencies in the preparation of their capital budget requests and, together with the Attorney General’s Office and the state’s bond counsel, reviews the bondability of requested projects. The department has several policies on capital appropriations to guide state agencies,³ and its website includes the constitutional and statutory requirements governing the use of bond proceeds and bond counsel opinion letters that provide guidance to all Minnesota government entities on the proper use of bond funds.⁴ The department also developed a comprehensive Capital Grants Manual and worked with the Attorney General’s Office to develop standard grant agreements, use agreements, forms, and checklists to guide political subdivisions in the

¹ [*Minnesota Constitution*](#) Article XI, section 5.

² Effective June 2008, the Legislature reorganized the Department of Finance to include the duties of the Department of Employee Relations. Although still identified in statute as the Department of Finance, in October 2008, the department changed its name to Minnesota Management and Budget. The department will seek legislative approval for the name change in the 2009 legislative session.

³ Department of Finance policies 0302-01, 0302-02, 0302-03, 0302-04.

⁴ The state’s bond counsel, Dorsey and Whitney LLP, issued a series of opinion letters that clarify eligible capital expenditures.

administration of capital projects. The Department of Finance assigns an executive budget officer to each state agency to approve agency accounting structures, appropriations, and allotments and to monitor overall agency revenues and expenditures, including the expenditure of bond proceeds.

Objectives

Our audit of expenditures from general obligation bond proceeds focused on the following audit objectives:

- For general obligation bond funds authorized by [Laws of Minnesota](#) 2006, Chapter 258, and expended through March 31, 2008, did the Department of Finance and other entities within our scope have adequate internal controls to ensure that they safeguarded resources, produced reliable financial data, and spent funds in compliance with applicable finance-related legal requirements?
- For the expenditures tested, did the entities within our scope spend bond funds in compliance with the [Minnesota Constitution](#), [Laws of Minnesota](#) 2006, Chapter 258, and other applicable state laws and policies?

Methodology

To answer these questions, we interviewed Department of Finance staff and staff of the other entities we audited to gain an understanding of the controls related to the expenditure of general obligation bond proceeds. In determining our audit approach, we considered the risk of errors in the accounting records and potential noncompliance with finance-related legal requirements. We also analyzed accounting data to identify unusual transactions or significant changes in financial operations for further review. In addition, we selected a sample of financial transactions and reviewed supporting documentation to test whether the entity's controls were effective, and the transactions complied with laws, regulations, policies, and grant and contract provisions.

For general obligation bond proceeds expended by the University of Minnesota, we relied on work performed by the university's Office of Internal Audit. We selected the projects for audit and designed the audit procedures. We reviewed their findings and supporting documentation and incorporated their findings into this report.

We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives.

We used the guidance contained in the Internal Control-Integrated Framework,⁵ published by the Committee of Sponsoring Organizations of the Treadway Commission, as our criteria to evaluate agency controls. We also used the *Minnesota Constitution*, state statutes, bond counsel opinion letters, and Department of Finance's policies and procedures as evaluation criteria.

Scope

Our population consisted of capital projects authorized by *Laws of Minnesota*, 2006, Chapter 258 (hereafter referred to as the 2006 bonding bill). Capital projects authorized in the 2006 bonding bill totaled approximately \$1 billion. About \$460 million had been spent as of March 31, 2008.

In determining our scope, we selected from the bonding bill all projects with expenditures exceeding \$3.4 million through March 31, 2008. In addition, we selected all capital grants to political subdivisions that totaled at least \$1 million; we had a lower threshold for these projects because of the increased risks associated with spending bond proceeds without direct state oversight. Expenditures from all projects included in our population, which we tested on a sample basis, totaled about \$385 million or 84 percent of the bonding bill's total expenditures through March 31, 2008. In addition to our audit work at the Department of Finance, we performed audit procedures at 12 separate entities, including executive branch agencies, other Minnesota government entities, and the Minnesota Historical Society. Appendix A details the entities and projects included in our audit scope.

Conclusions

Generally, the Department of Finance and other entities had adequate internal controls over their use of proceeds from general obligation bonds. These controls ensured that they safeguarded resources, complied with applicable finance-related legal requirements, and produced reliable financial data. However, all of the entities could have benefited from additional guidance and oversight from the Department of Finance.

Most of the expenditures we tested (selected from a population of \$385 million of expenditures) complied with applicable legal requirements; however, tested transactions totaling approximately \$1.5 million of expenditures did not or may not have complied.

The following findings further explain the exceptions noted above. Appendix B provides a list of findings by entity.

⁵ The Treadway Commission and its Committee of Sponsoring Organizations were established in 1985 by the major national associations of accountants. One of their primary tasks was to identify the components of internal control that organizations should have in place to prevent inappropriate financial activity. The resulting Internal Control-Integrated Framework is the accepted accounting and auditing standard for internal control design and assessment.

Findings and Recommendations

The Department of Finance did not sufficiently oversee projects funded with bond proceeds to ensure compliance with all legal requirements.

Finding 1

The Department of Finance did not monitor some statutory requirements specific to the use of bond funds and did not monitor how state agencies and other public entities actually used bond funds. The department provided resources to guide agencies' use of funds through policies and procedures and gave direction when specific questions arose; however, it did not require entities to periodically report how they had used the funds or provide a final accounting for each capital project. This lack of accountability limited the department's ability to ensure that agencies used bond funds as intended and complied with bond covenants and other legal restrictions.

The department did not oversee compliance with the following statutory requirements of bonded capital projects:

- The department did not verify other state agencies' determinations in ongoing programs about the sufficiency of required financial commitments from political subdivisions before making general obligation bond funds available. State statutes⁶ require the commissioner of the Department of Finance to determine the sufficiency of financial commitments from non-state sources necessary to complete the projects before making capital appropriations available. Although the department did verify the limited local matching requirements included in the 2006 bonding bill, it did not verify broader compliance by state agencies administering ongoing programs funded from general obligation debt proceeds. The departments of Transportation, Natural Resources, and Employment and Economic Development, as well as the Public Facilities Authority, all had ongoing programs that required matching funds from political subdivisions. In each case tested, those entities appropriately determined the sufficiency of funds from political subdivisions, but the Department of Finance had not verified the information, as required by statute.
- The department did not verify that entities filed real estate declarations on property purchased or bettered with general obligation bond proceeds. This declaration protects the state's interest in the property by preventing the subsequent sale of the property without the approval of the

⁶ *Minnesota Statutes* 2007, 16A.502.

commissioner, as required by statute.⁷ If the commissioner approves a sale, the statute further requires the repayment of some or all of any outstanding related bonded debt from the proceeds of the sale. Department policy⁸ requires the filing of declarations with the county where the property is located. Of the projects we tested, there were three instances where entities used bond funds to purchase property and did not file real estate declarations: a \$3.4 million the Minnesota State Colleges and Universities' (MnSCU) purchase of a building adjacent to the existing campus and two purchases, totaling \$4.5 million, made by cities receiving state bond funds through the Metropolitan Council. If these entities subsequently sell the properties, the state may not recover the general obligation bond funds used to purchase them.

In addition to the specific requirements cited above, state statutes⁹ give the Department of Finance broad responsibility to oversee the state's financial affairs. However, we identified the following additional weaknesses in the department's oversight:

- The department did not analyze financial information available in the state's accounting system to ensure agencies used bond funds appropriately. It also did not require any periodic or final accounting of how entities used the bond funds. In addition, the department did not require any supporting documentation from entities that did not use the state's accounting system to process expenditures, such as the University of Minnesota and the Metropolitan Council. For these entities, the department provided funds as requested by the entities without obtaining evidence that the entities had used the funds for bondable capital expenditures. The department expected that state agencies and the other Minnesota government entities had a sufficient understanding of the appropriate use of bond funds; the department focused on providing overall guidance and specific direction on a case-by-case basis but did not actively monitor bond fund use. Findings 2 through 4 identify a variety of capital project expenditures that were inappropriate or questionable uses of bond funds. Had the department monitored expenditures or required periodic or final accounting for the projects, it could have detected these areas of noncompliance sooner and intervened to ensure that entities used bond funds within the limits of the constitution, statutes, bond covenants, and legal counsel interpretations.
- The department did not oversee how well state agencies and other nongovernment entities monitored the expenditure of bond funds granted

⁷ *Minnesota Statutes* 2007, 16A.695.

⁸ Order Amending the Order of Commissioner of Finance, Relating to Use and Sale of State Bond Financed Property, section 6.02.

⁹ *Minnesota Statutes* 2007, 16A.055.

to political subdivisions. The department expected entities to closely oversee and control bond funds granted to political subdivisions. Although the department's Capital Grants Manual provided comprehensive guidance on many matters, it did not provide specific guidance for the level of monitoring of grant funds it expected, nor did the department verify what level of monitoring occurred at the entity level. Some granting entities did not appropriately oversee the use of bond funds by grantees. For example, the Metropolitan Council did not require any detailed expenditure documentation from its grantees to ensure the expenditures complied with the bonding bill. In addition, the Department of Transportation did not have grant agreements in place for the local road and bridge programs. A grant agreement should have specified the documentation requirements needed to obtain reimbursement for capital project expenditures and requirements for periodic project reporting.

Recommendations

- *The Department of Finance should:*
 - *verify the sufficiency of political subdivision matching funds, as required by state statute;*
 - *develop a process to track property purchased or bettered with general obligation bond proceeds and ensure that entities file declarations with the applicable county to protect the state's interests;*
 - *monitor actual use of bond funds by reviewing financial activity recorded on the state's accounting system and/or requiring periodic and final accounting reports for each capital project. It should obtain sufficient documentation from entities not using the state's accounting system to ensure those entities' expenditures are appropriate uses of bond funds before reimbursing project costs; and*
 - *provide better guidance to entities that grant bond funds to political subdivisions as to the level of fiscal monitoring required, and it should periodically review entity practices to ensure oversight agencies adequately monitor political subdivision grants.*

Finding 2

State agencies and other Minnesota government entities used approximately \$806,000 for project costs that were not appropriate uses of bond proceeds.

State agencies and other entities lacked sufficient understanding of state policies defining the eligibility of some expenditures paid from bond funds. Agencies widely believed that most, if not all, expenditures related to an authorized capital project were eligible for payment using bond funds. However, the [Minnesota Constitution](#) requires that all expenditures of general obligation bond proceeds be of a capital nature, and not all project expenditures we tested met that requirement. The Department of Finance has worked with bond counsel over many years to determine which project expenditures meet the definition of an allowable capital expense. Bond counsel opinion letters document those policy decisions. For example, bond counsel opinion letters specify that capital assets purchased with general obligation bond proceeds must have a useful life of at least ten years.

Contrary to bond counsel opinion letters, some agencies used bond funds to pay prohibited expenditures, such as moving and storage fees and other operating costs, such as supplies and food. Sample testing of capital project expenditures revealed the following inappropriate uses of bond funds by many entities included in our audit.

The Minnesota State Colleges and Universities (MnSCU) had these issues:

- Two institutions used a total of \$60,576 to pay for expenditures that could not be directly tied to the 2006 bonding bill: Minnesota State University, Mankato paid for work on a building not specified in the bonding bill. Winona State University paid for an appraisal of a building not associated with the bonding bill.
- Minnesota State University, Mankato, Winona State University, and Minnesota State University Moorhead paid for moving expenditures totaling \$63,616 from bond funds. Bond counsel opinion letters specifically prohibit payment of moving costs from general obligation bond proceeds.
- Fond Du Lac Tribal and Community College used \$831 for catering costs, and Winona State University used \$194 for tools. These items are operating expenditures and are not eligible for payment with general obligation bond funds.

The University of Minnesota used \$43,330 for unallowable costs that included charges for moving and storage expenditures and food costs. The majority of the food costs were for an appreciation lunch held for students inconvenienced by a building restoration project.

The Public Facilities Authority reimbursed some cities for approximately \$9,700 of ineligible costs, including grant application fees, costs unrelated to the specific capital project, and late fees paid by a city.

The Department of Employment and Economic Development overpaid one city by approximately \$35,000 due to a calculation error.

The Minnesota Zoo had \$10,577 of ineligible expenditures for airfare, backpack blowers, otter toys and crates, and a duplicate payment of sales tax on a utility bill.

The Minnesota Historical Society had a contract for \$190,000 for predesign work on a Fort Snelling project that the bonding bill did not specify. The Historical Society also used bond funds for \$1,160 for unallowable moving costs.

The Metropolitan Council paid \$390,000 for a park project that was not on the project list submitted to the Legislature for the 2006 bonding bill.

The Department of Transportation used \$690 for a computer needed in a temporary construction trailer.

Recommendations

- *The Department of Finance should update and expand its policies and procedures to clarify which costs can and cannot be paid with general obligation bond funds.*
- *The Department of Finance should work with the named entities to examine their accounting records for similar ineligible costs paid for from the 2006 bonding bill and pursue reimbursements to the general obligation bond appropriations from other funding sources for all ineligible costs.*

The Minnesota Zoo may not have complied with restrictions on bond funds designated for asset preservation for some expenditures, and did not submit reports on asset preservation projects to the Legislature, as required by statute.

Finding 3

As of March 31, 2008, the Minnesota Zoo had expended approximately \$700,000 out of \$7.5 million in bond funds designated for asset preservation on costs that may not have complied with statutory requirements governing funds appropriated for asset preservation projects. *Minnesota Statutes*¹⁰ set forth the parameters for the types of projects that can be funded with asset preservation money. In part, the statute states that asset preservation funds may not be used to acquire new land nor to acquire or construct new buildings, additions to buildings, or major

¹⁰ *Minnesota Statutes* 2007, 16B.307.

new improvements. The zoo used asset preservation bond funds for the following questionable expenses:

- \$107,000 to purchase and situate newly acquired portable classrooms to replace classrooms that had been demolished as a result of the new central plaza construction.
- \$431,000 for new construction and additional space for the zoo's Minnesota trail exhibit, as a part of major improvements to the exhibit. The zoo requested \$1.9 million in asset preservation funds for this exhibit. However, neither the zoo nor the Department of Finance had evidence that justified the zoo's use of asset preservation funds to finance the new construction portion of the trail renovations.
- \$160,000 for a new holding pool and surrounding area.

In addition, the zoo did not submit reports on asset preservation projects to the Legislature, as required. State statutes¹¹ require entities to submit a report to the Department of Finance and to the Legislature by January 15 of each year to report the asset preservation projects funded by general obligation bond proceeds and to describe projects they wish to have funded with future asset preservation funds. Although the zoo is generally exempt from this statute, it was unaware that the 2006 bonding bill specifically required compliance with this provision.

Recommendations

- *The Minnesota Zoo should work with the Department of Finance and bond counsel to determine if it appropriately used asset preservation funds or if it needs to reimburse its general obligation bond appropriations for the questionable amounts.*
- *The Minnesota Zoo should comply with the reporting requirements for asset preservation funds and provide details about its use of these funds.*

Finding 4

Some entities used bond funds for internal project management costs without clearly connecting those costs to authorized capital projects.

The Department of Finance did not have a formal, written policy regarding the eligibility of paying internal project management costs from bond funds. The department informally advised most state agencies not to charge any employee salaries to general obligation bond funds, even if those employees devoted all of their time to managing capital projects. However, several entities charged payroll costs and, in some cases, supplies to bond funds; other entities charged a fixed percentage of payroll costs to bond accounts. Although internal project

¹¹ [*Minnesota Statutes*](#) 2007, 16B.307.

management costs may be considered capital expenditures, bond counsel opinion letters state that expenditures must be specific to a capital project to be eligible for payment with bond funds. None of the entities could clearly demonstrate that the costs charged accurately represented the time employees spent on the projects. As a result, entities could have overcharged general obligation bond funds and possibly paid for normal operating costs from capital project funds. The department was not aware of the following practices:

- MnSCU's facilities management office charged project management percentages ranging from .8 percent to 1.8 percent depending on the type of project. MnSCU used the funds to pay for salaries and operating costs, including \$300,000 in supplies for its central facilities management office. This fee was in addition to the direct project management fees incurred at the college level. Based on the percentages cited above, MnSCU's facilities management office received about \$1.6 million in fees from the 2006 bonding bill for project management costs. Although the facilities management office had analyzed the project management fee structure, the analysis did not meet the bond counsel requirement that the costs be project specific.
- The University of Minnesota's project management percentages ranged from three to seven percent of the capital appropriations and included direct internal project manager time as well as indirect costs to fund its Capital Planning and Project Management Unit. For the large capital projects tested, the university's project management rate was three percent or about \$2.5 million for the three capital projects in our scope. One of the university's accounts used to track project management fees contained a cumulative surplus that ranged from \$1.1 million in June 2007, to \$839,000 in June 2008, which may indicate that the university overcharged general obligation bond proceeds for project management fees.
- The Minnesota Zoo, the Historical Society, and Minnesota State University, Mankato periodically charged their appropriations for payroll for various employees. As of March 31, 2008, these three entities budgeted a total of \$659,000 for these types of costs.

Recommendation

- *The Department of Finance should formalize its policy about project management costs and require entities to provide assurance that those costs accurately represent time and materials spent on authorized capital projects.*

Finding 5

The Minnesota State Colleges and Universities' use of general obligation bond proceeds for the purchase and leaseback of a building may not comply with state constitutional and other legal requirements.

In August 2006, MnSCU acquired an existing building for St. Cloud Technical College and leased 85 percent of the building back to the previous owner for 3½ years. The college had not anticipated a lease arrangement as part of the initial acquisition negotiations. While the college intends to remodel and use the space for classrooms when the lease expires in 2010, during the lease term, 85 percent of the building will be used by a nonprofit organization for a private, commercial purpose. The [Minnesota Constitution](#) requires that all general obligation bond proceeds be used for a “public purpose,” and state statutes¹² require that property acquired with general obligation bond funds be used to support a “government program.” These requirements still apply when the building and property is leased to another entity. In this case, the use of the leased space had no connection to a government program or public purpose.

The total purchase price of the building was \$3,570,000. MnSCU financed 95 percent of the purchase with general obligation bond proceeds by using its appropriation of \$3.4 million from the bonding bill and used other funds for the remainder of the purchase price.

Certain restrictions apply when an entity leases out a property purchased with general obligation bond proceeds. The statute cited above requires that MnSCU return revenues from the lease to the Department of Finance, to the extent the revenue exceeds approved operating costs or expenses due on debt other than from state bonds related to the property. In this case, the lease agreement required the lessee to pay all the operating costs. At March 31, 2008, the college had collected about \$172,000 in lease revenues. MnSCU deposited the lease revenues in the college's operating account. Total lease revenues due to St. Cloud Technical College for the 3½ year term of the lease total over \$1 million.

Recommendation

- *MnSCU should pay 95 percent of the revenues from the St. Cloud Technical College lease to the Department of Finance in accordance with Minnesota Statutes 2007, 16A.695.*

¹² [Minnesota Statutes](#) 2007, 16A.695.

Finding 6

The University of Minnesota did not submit plans and project costs to the Legislature, as required by statute. Also, the Department of Education did not verify that information for one capital project was submitted by a school district to the Department of Administration or the Legislature for approval.

The University of Minnesota did not request or receive legislative recommendations for any of its capital projects, and the Department of Education did not verify that the school district submitted information to the Department of Administration or sought legislative recommendations for the Nett Lake project. Minnesota statutes¹³ require any entity (except the Minnesota Zoo which is exempt from this provision) that receives capital appropriations to submit a predesign package to the Department of Administration for approval and to submit program plans and cost estimates for all elements necessary to complete the project to the chair of the Senate Finance Committee and the chair of the House Ways and Means Committee. According to statute, the entity must then receive a recommendation from the chairs of the legislative committees before proceeding with the projects. Failure or refusal to make a recommendation is considered a negative recommendation. However, according to statute, the recommendations are advisory only.

Recommendation

- *As required by statute, the University of Minnesota should submit program plans and cost estimates to the chairs of the House Ways and Means Committee and the Senate Finance Committee for approval. The Department of Education should ensure that school districts submit predesign plans to the Department of Administration and plans and project costs to the Legislature for approval.*

¹³ *Minnesota Statutes* 2007, 16B.335, subd. 1. In addition, *Minnesota Statutes* 2007, 126C.69, subd.3 states that the Commissioner of Education should require school districts to submit the information.

Appendix A

Capital Projects Included in Audit Scope

Responsible Entity Project Name	Appropriation Amount	Expenditures through 3/31/08
Administration		
Moose Lake Sex Offender Treatment Facility	\$41,321,000	\$4,092,801
Minnesota Correctional Facility - Faribault	27,993,000	5,368,644
Minnesota Correctional Facility - Stillwater	19,580,000	17,196,865
Education		
Independent School District 707, Nett Lake*	10,700,000	5,470,592
MacPhail Music Center*	5,000,000	5,000,000
Employment and Economic Development		
Bemidji Regional Events Center*	3,000,000	1,786,914
Bioscience Business Development Public Infrastructure Grant Program – Outstate*	2,000,000	345,660
Bioscience Business Development Public Infrastructure Grant Program – Rochester*	8,000,000	2,572,632
Greater Minnesota Business Development Infrastructure Grant Program – LaCrescent*	1,400,000	858,454
Greater Minnesota Business Development Infrastructure Grant Program*	6,100,000	3,080,455
Itasca County Infrastructure*	4,000,000	2,861,112
Historical Society		
Historic Sites Asset Preservation	3,000,000	1,126,175
Historic Fort Snelling Museum	1,100,000	137,463
Housing Finance Agency		
Supportive Housing for Long-term Homeless*	17,500,000	618,029
Metropolitan Council		
Central Corridor Transit Way	7,800,000	899,200
Metropolitan Regional Parks Capital Improvements - Como Zoo*	9,000,000	1,010,213
Metropolitan Regional Parks Capital Improvements - Lake of the Isles*	2,500,000	1,975,287
Metropolitan Regional Parks Capital Improvements*	7,000,000	2,202,346
Metropolitan Regional Parks Capital Improvements - National Great River Park*	2,500,000	1,871,268
Metropolitan Regional Parks Capital Improvements - Port Crosby*	2,000,000	625,656

Responsible Entity Project Name	Appropriation Amount	Expenditures through 3/31/08
Minnesota State Colleges and Universities		
Century College – Science Instruction and Learning Resource Center	\$19,900,000	\$17,024,118
Fond Du Lac Tribal and Community College – Library and Cultural Center	12,390,000	5,216,003
Minneapolis Community and Technical College – Science and Allied Health Training Center	18,874,000	10,245,859
Office of the Chancellor - Higher Education Asset Preservation and Replacement	17,476,845	14,961,241
Minnesota State College - Southeast Technical – Learning Resource Center and Student Services	4,855,000	4,674,783
Minnesota State University Moorhead – MacLean Hall Renovation	9,680,000	8,572,993
Minnesota State University, Mankato – Trafton Hall	32,800,000	18,182,206
Normandale Community College – Fine Arts Building	5,125,000	4,943,163
St Cloud Technical College – Property Acquisition	3,400,000	3,400,000
St Cloud State University – Robert A. Wicks Science Building	14,000,000	7,482,054
Southwest Minnesota State University – Southwest Regional Event Center	11,000,000	9,653,987
Winona State University – Maxwell Hall Renovation	11,186,000	7,140,442
Minnesota Zoo		
Asset Preservation	7,436,129	6,060,750
Master Plan	7,500,000	4,006,761
Natural Resources		
Flood Hazard Mitigation Grants*	25,000,000	11,130,680
Stream Protection and Restoration*	2,000,000	579,288
Water Access Acquisition, Betterment, and Fishing Piers*	1,685,000	177,975
Reinvest in Minnesota – Wildlife Area Land Acquisition and Improvement	13,581,928	5,328,004
Large Scale Forest Land and Forest Legacy Conservation Easements	6,576,000	6,576,000
Local Initiative Grants*	2,000,000	1,456,257
Prairie Wetlands Environmental Learning Center*	2,000,000	829,011

Responsible Entity Project Name	Appropriation Amount	Expenditures through 3/31/08
Public Facilities Authority		
State Match for Federal Grants – Public Facilities Authority*	\$38,800,000	\$35,752,848
Clean Water Legacy – Phosphorus Reduction Grants*	2,310,000	1,585,293
Redwood and Cottonwood Rivers Control Area*	1,600,000	110,818
Clean Water Legacy – Small Community Wastewater*	1,000,000	152,034
Total Maximum Daily Load Grants*	5,000,000	1,984,431
Wastewater Infrastructure Funding Program*	11,500,000	4,390,534
Wastewater Infrastructure Funding Program – Askov*	3,000,000	119,331
Wastewater Infrastructure Funding Program – Corrective Action*	6,500,000	1,121,444
Wastewater Infrastructure Funding Program – Lake Township*	1,500,000	1,439,684
Department of Transportation		
Local Road Improvement Program – County Grants*	7,650,000	4,846,717
Greater Minnesota Transit*	2,000,000	1,081,862
Local Bridge Replacement and Rehabilitation*	52,500,000	34,858,489
Local Road Improvement Program*	7,150,000	5,749,811
Northstar Commuter Rail	60,000,000	9,686,944
Port Development Assistance *	3,000,000	478,980
University of Minnesota		
Carlson School of Management	26,600,000	26,600,000
Labovitz School of Business	15,333,000	12,886,193
Higher Education Asset Preservation and Replacement	30,000,000	27,588,930
Medical Biosciences Building	40,000,000	6,159,386
Total	\$725,402,902	\$384,529,961

* Appropriation includes funds granted or loaned to political subdivisions.

Appendix B

Summary of Findings by Entity

Entity	Finding Number	Finding
Administration		No reportable findings.
Education	6	The department did not verify that the school district submitted predesign documentation to the Department of Administration and project plans and costs to the Legislature for the Nett Lake project.
Employment and Economic Development	2	Calculation error for City of Rochester resulted in an overpayment of \$34,480.
Finance	1	The department did not sufficiently oversee capital projects to ensure compliance with all legal requirements.
Historical Society	4	Payroll expenditures allocated using a fixed percentage that did not reflect direct time spent on the project. No 2006 funds used yet, even though work had begun on the 2006 projects. Still using 2005 funds, which may indicate that too much was set aside from previous bonding bills.
Historical Society	2	Contract for architectural services included about \$190,000 for predesign, which was not allowed per the bonding bill language.
Historical Society	2	Ineligible moving expenditures in the amount of \$1,160 charged to bond funds.
Housing Finance Agency		No reportable findings.
Metropolitan Council – Parks	2	\$390,000 used to pay for regional parks project that was not on the approved list for bond funding.
Metropolitan Council – Parks	1	The council did not receive sufficient information to ensure that reimbursement requests from grantees were eligible for payment with bond funds. Eight of eight samples tested had insufficient documentation.
Metropolitan Council – Parks	1	Land purchased with general obligation bond proceeds did not have declarations filed to preserve the state's interests. This included a \$2.5 million land purchase by the City of St. Paul and another \$2 million parks project by the City of South St. Paul.
MnSCU – Office of the Chancellor	4	MnSCU did not have a process to clearly connect project management fees charged to actual services/hours worked. They charged a flat rate for each project.
MnSCU – Century College		No reportable findings.

Entity	Finding Number	Finding
MnSCU – Fond Du Lac Tribal and Community College	2	The college used \$831 to pay for catering costs for a groundbreaking ceremony.
MnSCU – Minnesota State University, Mankato	4	Could not determine if \$150,000 budgeted for project management costs was accurate.
MnSCU – Minnesota State University, Mankato	2	Charged \$1,820 of ineligible moving expenditures to bond funds.
MnSCU – Minnesota State University, Mankato	2	Used \$56,376 of bond funds to pay for a project not specified in the bonding bill.
MnSCU – Minneapolis Community and Technical College		No reportable findings.
MnSCU – Minnesota State University Moorhead	2	Charged \$18,797 of ineligible moving costs to bond funds.
MnSCU – Normandale Community College		No reportable findings.
MnSCU – Minnesota State College - Southeast Technical		No reportable findings.
MnSCU – Southwest Minnesota State University		No reportable findings.
MnSCU – St. Cloud State University		No reportable findings.
MnSCU – St. Cloud Technical College	5	The Minnesota State Colleges and Universities' use of general obligation bond proceeds for the purchase and leaseback of a building may not comply with state constitutional and other legal requirements.
MnSCU – St. Cloud Technical College	1	MnSCU did not file the required declaration for the new building purchase as required under <i>Minnesota Statutes</i> 2007, 16A.695.
MnSCU – Winona State University	6	Total of \$47,393 in unallowable costs, including \$42,999 in moving costs, \$4,200 for an appraisal on a building not mentioned in the bonding bill, and \$194 for tools.

Entity	Finding Number	Finding
Minnesota Zoo	3	The zoo spent \$700,000 for asset preservation projects that may not have been allowable under <i>Minnesota Statutes</i> 2007, 16B.307.
Minnesota Zoo	4	The zoo allocated a straight percentage of staff time to bond appropriations and included indirect payroll charges. Could not verify that the time spent actually reflects the charges.
Minnesota Zoo	3	The zoo did not submit reports for its asset preservation expenditures to the Department of Finance and the Legislature by January 15 of each year, as required by the 2006 bonding bill.
Minnesota Zoo	2	Sample testing identified \$10,577 in unallowable operating costs charged to bond funds.
Natural Resources		No reportable findings.
Public Facilities Authority	2	Bond funds used to reimburse the City of Richmond for \$376 in costs not related to the project.
Public Facilities Authority	2	Unallowable disbursements to City of Askov for \$7,773 and the City of Richmond for \$916 to develop grant/loan applications.
Public Facilities Authority	2	\$614 reimbursed to the City of Palisade for late payment charges caused by the city not promptly paying invoices.
Transportation	1	Did not have grant agreements in place for the local bridge, local road, and county grants.
Transportation	2	Unallowable expenditures of \$690 for computers charged to bond funds.
University of Minnesota	4	Project management fees based on fixed percentage. No way to directly link charges to each project to costs incurred for the project. One internal service account had an excess balance ranging from \$1.1 million to \$839,000 in fiscal year 2008, indicating that bond funds may have been overcharged.
University of Minnesota	2	Used \$43,330 for unallowable expenditures, including \$32,094 for moving expenditures, \$11,116 for food costs for the Folwell Hall higher education asset preservation project, and nominal food costs and labor unrelated to the medical bioscience project.
University of Minnesota	6	Did not submit program plan and cost information to the Legislature under <i>Minnesota Statutes</i> 2007, 16B.335.

December 1, 2008

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

Dear Mr. Nobles:

Thank you for the opportunity to discuss your audit findings for the internal control and compliance audit of general obligation (g.o.) bond expenditures conducted by your office. Although the report includes all findings at state agencies and public entities that received funding in the 2006 bonding bill¹, our responses will address only those findings related to the Department of Finance (now Minnesota Management and Budget), which are findings 1, 2, and 4.

With bonding bills regularly exceeding the billion dollar mark, and requests for bonding several times that amount, we are consistently challenged to strike a balance between effective oversight and available staff resources. In general, our approach has been to place our emphasis and the majority of our staff resources on the front end of the capital budget project authorization process. To that end, we work closely with agency staff, the Attorney General's Office, bond counsel, legislators and legislative staff to ensure that recipients are aware of the limitations and requirements of g.o. bond financing and that the bonding bill clearly specifies legislative intent.

Before this audit commenced we had independently begun an internal examination of our agency's role and responsibilities with respect to the state's capital budgeting process. We intend to use what we have learned from our internal discussions and from our discussions with agencies and your office to improve the way that we manage and oversee the state's capital budget decisions.

MMB has the following responses to your office's findings and recommendations:

Finding 1. The Department of Finance did not sufficiently oversee projects funded with bond proceeds to ensure compliance with all legal requirements.

Recommendations:

The Department of Finance should:

¹ *Laws of Minnesota* 2006, Chapter 258

- *verify the sufficiency of political subdivision matching funds, as required by state statute;*
- *develop a process to track property purchased or bettered with general obligation bond proceeds and ensure that entities file declarations with the applicable county to protect the state's interests;*
- *monitor actual use of bond funds by reviewing financial activity recorded on the state's accounting system and/or requiring periodic and final accounting reports for each capital project. It should obtain sufficient documentation from entities not using the state's accounting system to ensure those entities' expenditures are appropriate uses of bond funds before reimbursing project costs; and*
- *provide better guidance to entities that grant bond funds to political subdivisions as to the level of fiscal monitoring required, and it should periodically review entity practices to ensure oversight agencies adequately monitor political subdivision grants.*

Response

We agree that it is important to give clear direction to state agencies and entities who have received state g.o. bond appropriations, so that they understand the constitutional, statutory, and federal tax law requirements that apply to those expenditures. Our approach has been to provide training and assistance to agencies who receive these appropriations to be sure that they have the necessary knowledge and guidance to successfully and legally implement these projects.

As the report notes, we do verify matching funds for projects specified in the bonding bill, but leave verification of matching funds for ongoing programs to the agencies receiving those appropriations. The report also notes that in each case tested, agencies did confirm the sufficiency of matching funds so that the legislative intent was fulfilled. We will continue to review our training materials and practice to ensure that agencies are prepared to fulfill their statutory obligations, and will work with agencies to identify reporting mechanisms that could improve our ability to verify that they have done so. This may be best done on a periodic or quarterly basis, with more in depth review for more complex projects or matching requirements.

We agree with the importance of ensuring that the state's interests are protected with regards to the eventual sale of bond financed property. We intend to review the commissioner's order to review options to ensure compliance. Changes to the statute or to the commissioner's order might also be needed. We also propose to show progress in tracking g.o. bond-financed property by notifying all state entities that our agency must receive a copy of each filed declaration.

Although we agree that our Capital Grants Manual, last revised in 2002, should be revised to reflect greater complexity in the types of projects and matching and funding requirements, we have also already begun several efforts to improve guidance and training to potential grant recipients. Our first efforts to provide updated guidance to local governments and the state agencies who work with them were focused on a key state statute, M.S. § 16A.695. In 2007 we developed an initiative to make the provisions of that statute more comprehensive; new subdivisions on general applicability and grant agreement were enacted that year. This year we worked extensively with the Attorney General's office

to update all of the generic forms of grant agreement documents that are available on our website. We also recently reinstituted agency-specific training workshops. Together with Attorney General staff, we met with several groups of agency grant administrators to review and discuss the special requirements for g.o. bonding projects. The workshops were constructive and we will continue to use them to provide guidance to agencies at key points in the process.

We will also now turn our attention to revising our Capital Grants Manual and our “*After the Bonding Bill*” guidance document so that they more clearly apply to all of the various types of bonding grants to local governments. The manual was written when the typical local bonding project was to construct a building, and we recognize that bonding grants to local governments are now authorized for a much broader spectrum of projects. Because our training and oversight resources are extremely limited, we are also reviewing options for augmenting our staff in this area, potentially through a budget request.

We also recognize that the Office of the Legislative Auditor has acquired significant in-depth knowledge of some of the key issues and potential solutions over the course of this audit. We hope to continue the collaborative discussion with the auditors and our partner agencies as we move forward to consider and potentially implement more robust oversight and auditing capacities.

In sum, we intend to strengthen our oversight responsibilities by focusing on providing more clear and thorough guidance to state agencies and entities as to the appropriate uses of state g.o. bond funds, as well as providing an appropriate level of fiscal monitoring of those funds.

Persons Responsible: Kathy Kardell and Capital Budget Coordinator

Estimated Implementation Date: April 2010

Finding 2. State agencies and other Minnesota government entities used approximately \$806,000 for project costs that were not appropriate uses of bond proceeds.

Recommendations:

- *The Department of Finance should update and expand its policies and procedures to clarify which costs can and cannot be paid with general obligation bond funds.*
- *The Department of Finance should work with the named entities to examine their accounting records for similar ineligible costs paid for from the 2006 bonding bill and pursue reimbursements to the general obligation bond appropriations from other funding sources for all ineligible costs.*

Response

We agree with your recommendation to update and expand our policies and procedures on allowable costs. Specifically, we will rewrite the 2010 edition of our Capital Budget Instructions to make it clear that project expenses relating to moving cannot be paid out of g.o. bond proceeds when the move is a simple occupancy change by the public entity.

We will also continue our work to educate affected state agencies, as well as legislators and their staff, about the importance of the constitutional requirement that the purpose for which g.o. bonds are issued is clearly set forth in law. The work of your audit staff confirmed our perspective that some entities fail to grasp the importance of ensuring an accurate and complete description of each project in the bonding bill. For example, if the bill language says an appropriation is for “land acquisition, predesign and design” of a building project, but does not say “construction,” then that bonding appropriation cannot be used for construction, even though construction of a building is a bondable activity.

Lastly, we will provide the entities named in Finding 2 with instructions and guidance in so that they may review and evaluate their records for ineligible costs, and will encourage them to make appropriate reimbursements.

Person Responsible: Capital Budget Coordinator

Estimated Implementation Date: With issuance of the department’s 2010 Capital Budget Instructions (estimated April 2009)

Finding 4. Some entities used bond funds for internal project management costs without clearly connecting those costs to authorized capital projects.

Recommendation:

The Department of Finance should formalize its policy about project management costs and require entities to provide assurance that those costs accurately represent time and materials spent on authorized capital projects.

Response

We agree with your recommendation to formalize our policy about project management costs. We have had discussions with our Attorney General and bond counsel to identify the parameters within which to examine our positions with respect to project management costs. We also agree that if we move in the direction of specifically allowing state salary costs to be paid out of g.o. bond proceeds we must require entities to directly and accurately connect actual staff time and materials to authorized projects.

Persons Responsible: Jim Schowalter and Kathy Kardell

Estimated Implementation Date: April 2009

Sincerely,

/s/ Tom J. Hanson

Tom J. Hanson
Commissioner



November 25, 2008

James R. Nobles, Legislative Auditor
Office of the Legislative Auditor
658 Cedar Street
140 Centennial Office Building
St. Paul, MN 55155-4708

Dear Mr. Nobles:

Thank you for the opportunity to respond to your audit findings for internal control and compliance audit of general obligation bond expenditures authorized by Laws of Minnesota 2006, Chapter 258 and expended through March 31, 2008. This report included many findings state agencies responsible for management of the referenced bond projects. This letter responds to the finding relating to the Department of Education.

Recommendation

Finding 6. The Department of Education should ensure that school districts submit pre-design plans to the Department of Administration and plans and project cost to the Legislature for approval.

Response

The Department of Education will change procedures to verify, prior to execution of the loan or grant agreement, that the recipient school district: (1) has submitted the program plan and cost estimates to the legislative committee chairs and has received a recommendation, and (2) has submitted a pre-design package to the Department of Administration and has received approval.

Person Responsible: Tom Melcher, Director, Program Finance Division

Implementation Date: December 1, 2008.

If you have any questions about the response provided feel free to contact me or Tammy McGlone at 651-582-8835.

Sincerely,

A handwritten signature in black ink that reads "Alice Seagren".

Alice Seagren
Commissioner

November 24, 2008

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

Dear Mr. Nobles:

Please accept the following response regarding the finding related to the Department of Employment and Economic Development (DEED) in the audit report on expenditures of general obligation bond proceeds authorized by the *Laws of Minnesota 2006, Chapter 258*. We agree with the finding and have taken the following action to resolve the issue.

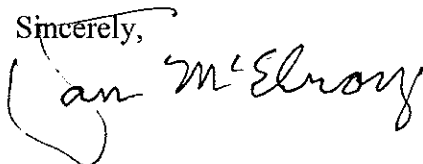
Finding 1: *The Department of Employment and Economic Development overpaid one city by approximately \$35,000 due to a calculation error.*

Response: The overpayment to the City of Rochester was recovered from the city on 09/05/08.

Responsible Person: Kevin McKinnon, Director of Business Development

If you have any questions, please contact Cindy Farrell, Chief Financial Officer at Cindy.Farrell@state.mn.us or 651-259-7085.

Sincerely,



Dan McElroy
Commissioner



November 26, 2008

Mr. James Nobles, Legislative Auditor
Office of the Legislative Auditor
Room 140 Centennial Building
658 Cedar Street
St. Paul, MN 55155-1603

Dear Mr. Nobles:

Thank you for providing the Minnesota Historical Society the opportunity to respond to findings and recommendations in the Legislative Auditor's draft report regarding general obligation bond expenditures. We appreciate your efforts in reviewing the Society's work and also willingness to help us develop a mutual understanding of some of the unusual aspects of working on historic structures.

The draft document addresses three areas specifically relating to the Minnesota Historical Society. Each is addressed below:

Finding: "The Minnesota Historical Society had a contract for \$190,000 for predesign work on a Fort Snelling project that the bonding bill did not specify." (Page 11 of draft report, finding 2)

Audit Recommendation:

- The Department of Finance should update and expand its policies and procedures to clarify which costs can and cannot be paid with general obligation bond funds.
- The Department of Finance should work with the named entities to examine their accounting records for similar ineligible costs and ensure the agencies reimburse general obligation bond appropriations from other funding sources for all ineligible costs.

Minnesota Historical Society Response:

The Minnesota Historical Society will continue to work with the MN Department of Finance / MN Management and Budget as the department implements its actions relating to these recommendations.

Since the Legislative Auditor's review, the Society has repaid the state's bond fund account.

The Society acknowledges that the appropriation language, as passed in 2006, as amended in 2008, did not contain the word "predesign" but rather said:

Sec. 68. Laws 2006, chapter 258, section 23, subdivision 3, is amended to read:

Subd. 3. Historic Fort Snelling Museum and Visitor Center

~~To design the restoration and renovation of the 1904 Cavalry Barracks Building for the historic Fort Snelling Museum and Visitor Center and other site improvements to revitalize historic Fort Snelling.~~

(Laws, 2008, Chapter 179, Section 68)

In the future, the Society's government relations staff will work with legislators and legislative staff to ensure that appropriations language accurately reflects the intended scope of future projects. The Society has done this most recently with a 2008 appropriation for design for the Oliver H. Kelley Farm Revitalization project; the appropriation language for this project includes the word "predesign."¹

¹ Laws, 2008, Chapter 179, Section 24

Subd. 5. Oliver H. Kelley Farm Historic Site

300,000

For predesign and design for the renovation of the Oliver H. Kelley Farm Historic Site. Any unexpended funds may be used for the construction of visitor amenities including rest room and picnic facilities.

Finding: *“The Historical Society also received reimbursement for \$1,160 for unallowable moving expenses.” (Page 11 of draft report, finding 2)*

Audit Recommendation:

- The Department of Finance should update and expand its policies and procedures to clarify which costs can and cannot be paid with general obligation bond funds
- The Department of Finance should work with the named entities to examine their accounting records for similar ineligible costs and ensure the agencies reimburse general obligation bond appropriations from other funding sources for all ineligible costs.

Minnesota Historical Society Response:

While the Minnesota Historical Society respectfully disagrees with the interpretation of this expenditure, it will repay this expenditure from non-bond funds. However, for future projects the Society requests that the Minnesota Management and Budget department seek advice from bond counsel on this specific question.

This expenditure was a part of the Comstock House and Folsom House Historic Site Asset Preservation projects, the purpose of which are to preserve important historic sites. For this activity, collections, which are intrinsic to the sites, were removed from the construction site to ensure their safekeeping. In the case of the Comstock House, collections were temporarily relocated from an attic storage area during a roofing project. For the Folsom House project, collections were also protected from construction activity during a major renovation of the house, which included plastering work. In both cases, collections were returned to their original location after construction work was completed. In retrospect, this activity perhaps could have been called something other than “moving” since the purpose of this activity was to protect irreplaceable historical collections, which are part of the fabric of each historic site, from the impacts of construction. Similarly, a responsible construction manager would work to minimize unintended damage, to windows, floors or woodwork, from construction activities. This is a very different type of activity than moving employees’ desks, computers and office equipment into a new facility. The Society recognizes that moving equipment is a very different type of activity than the protection of historic collections that are an essential part of a historic site.

Finding: *“In addition, ... the Historical Society... periodically charged their appropriation for payroll for various employees.” (pg. 13 of draft report, finding 4)*

Audit Recommendation:

- The Department of Finance should formalize its policy about project management costs and require entities to provide assurance that those costs accurately represent time and materials spend on authorized capital projects.

Minnesota Historical Society Response:

The Society agrees with this recommendation, and will work with the Department of Finance / MN Management and Budget as it implements the recommendation to formalize its policy on project management costs.

It should be made clear that, the Department of Finance’s capital budget manual states that personnel expenses for project management staff are eligible expenditures for activities related to capital projects. The Society has appropriately had staff in its Historic Sites Division provide oversight for restoration projects, including contract management, construction oversight, etc. The finding of the Legislative Auditor’s draft report relates to ensuring that a clearer connection and documentation be made for these costs. We have begun to implement a time-tracking system for project managers based on an existing system now in place for some grant-funded projects. The Society looks forward to working with the Department of Finance to ensure that the Society’s system is consistent with new policies.

Overall, the Society agrees with the finding that clearer guidance on bond-funded projects would be helpful for project managers. Training for project managers would ensure a common understanding of procedures and guidelines.

Sincerely,

A handwritten signature in cursive script, appearing to read "Nina Archabal".

Nina Archabal
Director

NA/kw



Metropolitan Council

November 24, 2008

James R. Nobles
Legislative Auditor
Office of the Legislative Auditor
Room 140 Centennial Building
658 Cedar St.
St. Paul, MN 55155-1603

RE: General Obligation Bond Legislative Audit Response from Metropolitan Council
Management

Dear Mr. Nobles:

Enclosed please find the Metropolitan Council's management response to the general obligation bond audit which you conducted regarding general obligation bond expenditures from 2006 through March 31, 2008.

We take our obligations as fiscal stewards very seriously, and were happy that no serious issues or discrepancies were uncovered. Our responses address the three items noted for the Metropolitan Council parks program in Appendix B of the Audit. As indicated in our management response, the audit uncovered several areas for improvement which we plan to address immediately.

Thank you for bringing these matters to light. If you need further information, please contact me, or Ann Beckman, the manager in charge of parks grants. She can be reached at 651-602-1669, or by e-mail at: ann.beckman@metc.state.mn.us.

Sincerely,

Thomas Weaver
Regional Administrator, Metropolitan Council

Management Response to Appendix B of Legislative Audit on General Obligation Bond expenditures:

- 1) *\$390,000 used to pay for regional parks project that was not on the approved list for bond funding.*

Management response:

Council staff made an accounting error that led to the wrong account being used for this project. Council staff will be more diligent in checking the appropriate source for funds when assigning the funding source for a grant.

Staff Responsible: Ann Beckman. Manager of Regional Growth Strategy Unit

Timeline: Immediately.

- 2) *The Council did not receive sufficient information to ensure that reimbursement requests from grantees were eligible for payment with bond funds. Eight of eight samples had insufficient information.*

Management response:

Council staff will develop materials to help grantees determine eligible expenditures under general obligation bonds. Prior to disbursing funds, Council staff will ask grantees to sign a statement affirming that all expenditures are in compliance with state authorization. Council staff will also conduct random checks for appropriate supporting documentation to assure that grant recipients are in full compliance with conditions of state bond authorization.

Staff Responsible: Ann Beckman. Manager of Regional Growth Strategy Unit

Timeline: Immediately.

- 3) *Land purchased with general obligation bond proceeds did not have declarations filed to preserve the State's interests. This included a \$2.5 million land purchase by the City of St. Paul and another \$2 million parks project by the City of South St. Paul.*

Management response:

The cited grant agreements required the grantee to record a State bond financed declaration. Council staff will ensure that appropriate declarations for parks acquired and improved with State bond proceeds will be obtained within 30 days of grant disbursement. Council staff will require appropriate documentation for grants for park land or buildings since 1994. Copies of all declarations and covenants will be tracked by grant agreement, and filed in the Council's law department files, as well as in the parks grant database. Council staff will withhold the final fifteen (15%) percent of funding until the grantee provides evidence that appropriate declarations have been filed.

Staff Responsible: Ann Beckman. Manager of Regional Growth Strategy Unit

Timeline: Immediately.



Minnesota
STATE COLLEGES
& UNIVERSITIES

December 1, 2008

Mr. James R. Nobles
Office of the Legislative Auditor
Room 140 Centennial building
658 Cedar Street
St. Paul, MN 55155

Dear Mr. Nobles:

The purpose of this letter is to respond to the recently conducted audit of expenditures from general obligation bond proceeds authorized by the *Laws of Minnesota* 2006, chapter 258.

The Office of the Legislative Auditor performs a vital part of our financial assurance program through its audits of the various colleges and universities, as well as the Office of the Chancellor. The Board of Trustees, Chancellor McCormick and I strive to maintain an environment of the highest professional standards. The work of your staff has helped test that environment and provide continuing assurance that state laws and internal control procedures are in place and in force at our colleges and universities. Given the size of the 2006 capital program throughout the state, and with over \$190,000,000 appropriated to the System, we were particularly pleased that your report noted that adequate internal controls are evident in the System.

We have evaluated the audit's findings and agree that corrective actions are needed to resolve most of these issues. Action has already been taken on many of the items. However, we disagree on two items as noted in the attached summary.

On behalf of the presidents, financial and facilities management staff at each of the colleges, universities, and Office of the Chancellor, please extend our appreciation to the audit managers and audit staff responsible for each of the audits.

Attached please find specific responses to the audit findings.

Laura M. King
Vice Chancellor – Chief Financial Officer

c: James H. McCormick, Chancellor
Selected Presidents and Chief Financial Officers

Minnesota State Colleges and Universities Response to the Audit of General Obligation Bond Expenditures

Summary of Findings

Finding 2: State agencies and other Minnesota government entities used approximately \$806,000 for project costs that were not appropriate uses of bond proceeds.

Recommendations:

- *The Department of Finance should update and expand its policies and procedures to clarify which costs can and cannot be paid with general obligation bond funds.*
- *The Department of Finance should work with the named entities to examine their accounting records for similar ineligible costs and ensure the agencies reimburse general obligation bond appropriations from other funding sources for all ineligible costs.*

Specific Minnesota State Colleges and Universities' findings and management response:

Fond du Lac Tribal & Community College

Finding: The College used \$831 to pay for catering costs for a groundbreaking ceremony.

Response: Concur. The College has reimbursed the project bond account for these expenses from their general funds.

Minnesota State University, Mankato

Finding: The University charged ineligible moving expenditures in the amount of \$1,820 to bond funds.

Response: Concur in part. The University has reimbursed the project bond account for these expenses from their general funds. However, we ask that Minnesota Management and Budget (MMB) revisit bond counsel's opinion in consideration of the number and scope of renovation projects Minnesota State Colleges and Universities (MnSCU) perform in existing, operating academic buildings. Moving personnel, furniture and equipment out and back into a renovated building during a major renovation project is a costly event and would place a huge fiscal burden on operating budgets.

Finding: The University used bond funds in the amount of \$56,376 to pay for a project not specified in the bonding bill.

Response: Concur. The University has reimbursed the project bond account for these expenses from their general funds.

Minnesota State University Moorhead

Finding: The University charged ineligible moving costs of \$18,797 to bond funds.

Response: Concur in part. The University has reimbursed the project bond fund account for these expenses. As noted above, we ask that MMB revisit bond counsel's opinion.

Winona State University

Finding: A total of \$47,393 in unallowable costs were identified, including \$42,999 in moving costs, \$4,200 for an appraisal on a building not mentioned in the bonding bill, and \$194 for tools.

Response: Concur regarding the appraisal and tool costs. The University has reimbursed the project bond account for the appraisal and tool costs. As noted above, however, we ask that MMB revisit bond counsel's opinion with respect to moving costs.

Finding 4: Some entities used bond funds for internal project management costs without clearly connecting those costs to authorized capital projects.

Recommendation:

- *The Department of Finance should formalize its policy about project management costs and require entities to provide assurance that those costs accurately represent time and materials spent on authorized capital projects.*

Finding: MnSCU did not have a process to clearly connect project management fees charged to actual services/hours worked. They charged a flat rate for each project.

Finding: At Minnesota State University, Mankato, there was no way to determine if \$150,000 budgeted for project management costs was accurate.

Response: Non-concur. We note that the use of bond funds is considered an appropriate expense for project management. After careful consideration of the costs involved with management of MnSCU projects, a rational yet simple method has been devised to charge projects based on the totality of the capital program. These charges are limited to a number of personnel in the Office of the Chancellor specifically charged with management oversight of the capital program. MnSCU currently charges several different rates for project management depending upon the size, nature and type of the project. The rates are based on a breakdown of work necessary to manage these projects. However, we recognize that our process does not specifically tie each person's precise labor hours directly to a specific bond funded project. To clarify the process, MnSCU is eager to work with MMB and other state entities in its review of project management costs related to capital projects.

With respect to the finding at Minnesota State University, Mankato, we will defer to the larger discussion we anticipate with MMB as noted above.

Finding 5: The Minnesota State Colleges and Universities’ use of general obligation bond proceeds for the purchase and leaseback of a building may not comply with state constitutional and other legal requirements.

Recommendation:

- *MnSCU should pay 95 percent of the revenues from the St. Cloud Technical College lease to the Department of Finance in accordance with Minnesota Statutes 2007, 16A.695.*

Finding: The College purchased a building that was leased back to the seller. 85 percent of the building was not being used for a government program in violation of Minnesota Statute 2007 16A.695.

Response: Concur in part. MnSCU concurs that it leased back 85 percent of the building to the seller while it continued to seek funding in 2008 and 2010 for the design and renovation of the facility. MnSCU and the College had no reasonable choice to acquire the building without the seller remaining in a portion of the facility short-term. MnSCU and the College do not concur in the finding that the building is not being used for a government program in violation of Minnesota Statute 2007 §16A.695. Specifically, the facility is already educating nursing students in over 8,000 sq. ft. of space converted to classrooms on the lower level of the facility. More importantly, the College is achieving the objectives of a government program in providing nursing students an opportunity to learn in a functioning health clinic environment.

Implicit in the finding is a fundamental disagreement regarding how long a use can occur in a facility before it eclipses the public purpose for the acquisition.

A non-public benefit is not prohibited when evaluating a public purpose, and is not fully dispositive in determining whether a particular use meets the test of public purpose. In an advisory letter memorandum from the state’s bond counsel, Dorsey & Whitney, to the Minnesota Department of Finance dated April 24, 1989 and further publicized on the Department of Finance’s web site, the letter explains how public purpose is determined:

“Public purpose is present when the expenditure can reasonably be expected to achieve a legitimate public goal or benefit, even though some benefit may result to non-public interests.”

The advisory memo identifies a two part test in determining a public purpose: “1) the nature of the expenditure and extent to which the public goal or benefit is accomplished, and 2) extent to which it [the public goal or benefit] is the dominant and overriding benefit to be derived from the expenditure. *Private benefit may result, but it should not be the dominant or overriding benefit resulting from the expenditure.*” (emphasis added)

Guidance on what constitutes a public purpose is determined first by the Legislature. In this case, the 2006 bonding bill provided for a \$3.4 million appropriation:

“To acquire real property adjacent to the state college and university campuses or within the boundaries of the campus master plan. This appropriation may be used at St. Cloud Technical College.” 2006 Minnesota Laws Ch. 258, Sec. 3, Subd. 22(c).

The St. Cloud Technical College property was acquired in December 2006, consistent with the legislative authorization. The acquisition was made, but was conditioned on the seller leasing back a portion of the property until the sellers were able to move to their new location. The college immediately began using a portion of the facility, and leased back a majority of the facility to the seller on a short term lease. The incidental benefit of the lease-back was two-fold: 1) to keep the building fully occupied while the college awaited further capital funds to accomplish renovation in 2008 and 2010 (bond proceeds were authorized in 2008 for renovation design and are being sought in 2010 for construction); and 2) to defray the College’s holding costs (primarily debt service) of the facility.

Such incidental benefits should not overshadow the overriding benefit of this acquisition of integrating the facility into the College for allied health instruction. This is occurring. The initial goal is being realized now, with classes being held in a portion of the facility, and the nursing students being better prepared by actively participating in a functioning clinic environment. MnSCU is expecting to finalize its investment with an additional \$5-6 million in renovations to the facility through general obligation bond funding obtained in 2010 and converting the clinic into a College allied health training center.

Finding: The College retained lease revenues from the building purchased in violation of Minnesota Statute 2007 16A.695. Total lease revenues from the lease are about \$1 million.

Response: Concur in part. Public higher education systems in Minnesota pay an amount equal to one-third the debt service of general obligation bonding received as an appropriation, which is directed to the General Fund. Higher education is unique among state agencies, as the only entities that must repay a portion of general obligation bond debt service. MnSCU concurs in the finding that the College retained revenues from the lease, although does not concur in the recommendation of returning 95 percent of revenues without crediting the portion attributable to MnSCU’s debt service obligation.

MnSCU will make arrangements with the Department of Finance to structure the return of the lease revenues, urging them to consider a credit to MnSCU’s debt service against the lease revenue.

Finding: MnSCU did not file the required declaration for the new building purchase as required under Minnesota Statutes 2007 Chapter 16A.695.

Response: Concur. The Declaration will be filed with the county by December 31, 2008, and a review is occurring to verify whether other acquisitions funded with general obligation bonds are missing the required Declarations.



November 25, 2008

James R. Nobles, Legislative Auditor
Office of the Legislative Auditor
Room 140 Centennial Building
658 Cedar Street
St. Paul, MN 55155-1603

Dear Mr. Nobles:

We appreciate the opportunity to discuss and respond to the findings and recommendations made in your recent audit of general obligation bond expenditures authorized by Laws of Minnesota 2006, Chapter 258. Our responses are below.

1. In Finding 2, it states, “The Minnesota Zoo had \$10,577 of ineligible expenditures for airfare, backpack blowers, otter toys and crates, and a duplicate payment of sales tax on a utility bill.”

Response

The duplicate payment on the sales tax on the utility bill has been corrected. We disagree that some of the expenditures referenced in the audit are ineligible. For example, expenses related to the sea otters were necessary to “equip” the exhibit prior to opening. While we agree that replacing these would be an operating expense, we believe the initial costs qualify as a “fixtures, furnishing and equipment” capital expenditure. The airfare that is referenced was for staff to look at a flooring product to determine whether it would meet our needs. Had this project been contracted out, those expenses would have been paid to a contractor, with associated profit, overhead and other premium costs.

Our Chief Financial Officer and Accounting Director will work with the Department of Finance and look to them for guidance on the eligibility of the cited expenditures.

2. Finding 3 states, “The Minnesota Zoo may not have complied with restrictions on bond funds designated for asset preservation for some expenditures and did not submit reports on asset preservation projects to the Legislature, as required by statute.” Information concerning the specific expenditures upon which this Finding was based was provided to us by your office, and our response is noted below.

Response

While the funds used to purchase and situate portable classrooms were not repairing an existing building, they were replacing classroom space lost due to other Asset Preservation-funded construction. We agree that this does not strictly meet the language, “may be used only for a capital expenditure on a capital asset *previously owned by the state.*” In the future, we will look at a strict interpretation of language contained in the asset preservation statute. It should be noted, however, that the use of pre-used portable classrooms permitted the Zoo to continue to provide revenue-generating educational services at a cost far below what would have been required had new capital construction been used to replace the space.

Under M.S. 16B.307, “The legislature assumes that many projects for preservation and replacement of portions of existing capital assets will constitute betterments and capital improvement within the meaning of the Constitution and capital expenditures under generally accepted accounting principles, and will be financed more efficiently and economically under this section than by direct appropriations for specific projects.” We believe that the costs associated with the rehabilitation of the Minnesota Trail meet this test. We have been forthcoming with both the Legislature and the Minnesota Management and Budget office not only regarding the Minnesota Trail project, but with all other projects funded with bonding dollars. We have met both with Administration staff and with Legislative committees during the conceptual process to present and discuss our needs and priorities. We have offered and provided tours both during and after construction. No aspects of our Asset Preservation projects were ever questioned throughout this process.

The “holding pool and surrounding area” are questioned as to whether they meet Asset Preservation guidelines. In fact, this project was undertaken within the area that formerly housed dolphins (and Beluga whales before that) prior to construction of Discovery Bay. This was an area that had been unused since the construction of Discovery Bay, but still contained many infrastructure elements necessary for supporting salt-water life support systems for marine mammals and other aquatic animals. With the addition of sea otters to the collection, this space provided an opportunity to create an animal holding area to be used, not only prior to the opening of Russia’s Grizzly Coast, but on an on-going basis. We believe this project meets the intent of the appropriation. Again, it should be noted that to have built an equivalent animal holding area “from scratch” would have required new capital expenditures of many hundreds of thousands of dollars, but by re-using existing building space and utility systems, the same end was accomplished for significantly less.

The reporting requirements referenced are contained in Subdivision 2 of M.S.16B.307. While the Zoo is exempt under its enabling legislation from 16B (except for 16B.35 and 16B.55), given that the appropriation contained in Laws 2006, Chapter 258 references 16B.307, we agree that we would fall under that requirement in this case. We believe that we did provide the required information to the appropriate entities; however, it was not by the January 15 deadline.

The Chief Financial Officer will work with the Department of Finance and a report will be submitted by January 15th to the appropriate entities.

3. While Finding 4 is directed at the Department of Finance, it references the Minnesota Zoo as periodically charging the appropriation for payroll of various employees.

Response

We have a number of skilled employees at the Zoo who can provide Project Management services for small to moderate capital projects. It is much more cost effective to use our staff in this capacity than it is to contract for these services. In addition, M.S.16C.08, Subd.2(b)(1), requires that prior to entering into a Professional/Technical Service contract we must certify that no currently-employed state worker can perform the work. During our annual budgeting process we determine the percentage of time an individual will be working on particular projects. We then charge that percent of an individual's time against the appropriation. If an adjustment is needed during the course of the year, based on experience, a change is made. We are attempting to set up actual cost coding within the state payroll system so that actual hours on a particular project can be recorded each pay period. To date we are experiencing challenges with doing this but will continue to work on this approach.

The Chief Financial Officer and Accounting Director will work with the Department of Finance to determine appropriate procedures for accounting for project-related payroll expenses.

The Minnesota Zoo strongly believes in being transparent and forthcoming about all of our capital projects from planning through commissioning. We will work with the Department of Finance to meet applicable laws, rules and policies. We appreciate the professional approach taken by the Auditor's staff throughout this process.

Sincerely,

A handwritten signature in black ink, appearing to read 'Lee C. Ehmke', with a long horizontal stroke extending to the right.

Lee C. Ehmke
Director/CEO

November 24, 2008

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

Dear Mr. Nobles:

Please accept the following response regarding the findings related to the Public Facilities Authority (PFA) in the audit report on expenditures of general obligation bond proceeds authorized by *Laws of Minnesota 2006, Chapter 258*. We agree with the findings and have taken the following actions to resolve the issues.

Finding 1: *Bond funds used to reimburse the City of Richmond for \$376 in costs not related to the project.*

Corrective Action Planned (CAP) in Response to Finding:
These funds were recovered from the city.

Official Responsible for Ensuring CAP is carried out:
Loan Officer Kathe Barrett.

Completion Date for CAP:
The funds were recovered from the city on 08/26/08.

Finding 2: *Unallowable disbursements to City of Askov for \$7,773 and the City of Richmond for \$916 representing costs to develop grant/loan applications.*

CAP in Response to Finding:
Askov: These funds were recovered from the city.

Richmond: The PFA processed funding corrections to use other funding sources (not state general obligation bond proceeds) to cover these costs, which were eligible project costs under the program. Although state general obligation bond proceeds may not be used to pay these costs, often other sources of funding are available to cover the costs when they are determined to be eligible.

James R. Nobles
November 24, 2008
Page 2

Official Responsible for Ensuring CAP is carried out:
Loan Officer Kathe Barrett.

Completion Date for CAP:
Askov: The funds were recovered from the city on 07/24/08.

Richmond: The funding corrections were processed on 08/26/08.

Finding 3: *\$614 reimbursed to the City of Palisade for late payment charges caused by the city not promptly paying invoices.*

CAP in Response to Finding:
These funds were recovered from the city.


Official Responsible for Ensuring CAP is carried out:
Loan Officer Nancy Johnson.

Completion Date for CAP:
The funds were recovered from the city on 07/24/08.

Only one of the above findings related to ineligible project costs; the others related to costs that were eligible for the program but not eligible for funding by the state general obligation bond proceeds. The Loan Officer review of disbursement requests has been tightened up and a revised form has been implemented to ensure that the amount of any eligible cost is charged to the appropriate funding source.

If you have any questions, please contact Terry Kuhlman, Executive Director, at Terry.Kuhlman@state.mn.us or 651-259-7468.

Sincerely,



Dan McElroy
Commissioner



Minnesota Department of Transportation

Transportation Building
395 John Ireland Boulevard
Saint Paul, Minnesota 55155-1899

November 25, 2008

James R. Nobles
Legislative Auditor
100 Centennial Office Building
658 Cedar Street
St. Paul, Minnesota 55155

Dear Mr. Nobles:

Thank you for the opportunity to review and respond to the *internal control and compliance audit of expenditures*. My staff and I appreciate your effort and are committed to satisfactory resolution of the findings. Following are Mn/DOT's responses to your findings.

Finding: Did not have grant agreements in place for the local bridge, local road, and county grants.

Response: Mn/DOT concurs that this is an issue. We have been working with staff from the Department of Finance to resolve this finding. Meetings are on-going and will continue; and, along with the Department of Finance, Mn/DOT is committed to satisfactory resolution of this finding.

Responsible People: Julie Skallman, Director, State Aid for Local Transportation Division, Mn/DOT; Patti Loken, State Aid for Local Transportation, Mn/DOT; and, appropriate staff from Department of Finance.

Implementation Date: On-going resolution meetings are occurring.

Finding: Unallowable expenditures of \$690 for construction shack cabling and computer peripherals charged to bond funds.


Response: Mn/DOT concurs with this finding. At the time of the purchase, project staff believed that this was an appropriate use of bond funds since the cabling and computer peripherals were used for project specific work. However, as a result of this finding, project staff has been advised that this purchase did not meet the requirements of the *Minnesota Constitution*.

Responsible Person: Mike Schadauer, Director, Office of Transit, Mn/DOT.

Implementation Date: December 1, 2008

Thank you for the opportunity to respond to your findings and recommendations. We will be monitoring the implementation of the resolution of these findings. Please contact Terry Lemke at 651-366-4876 for follow-up information and activity.

Sincerely,

A handwritten signature in black ink, appearing to read "Thomas K. Sorel". The signature is fluid and cursive, with a long horizontal stroke extending from the left.

Thomas K. Sorel
Commissioner of Transportation

UNIVERSITY OF MINNESOTA

Twin Cities Campus

Office of the President

*202 Morrill Hall
100 Church Street S.E.
Minneapolis, MN 55455
Office: 612-626-1616
Fax: 612-625-3875*

November 25, 2008

Mr. James R. Nobles, Legislative Auditor
140 Centennial Building
658 Cedar Street
Saint Paul, Minnesota 55155-1603

SUBJECT: Response to Internal Control and Compliance Audit of Expenditures from
General Obligation Bond Proceeds

Dear Mr. Nobles:

This letter is in response to the issues and recommendations included in your Audit of Expenditures from General Obligation Bond Proceeds that pertain to the University of Minnesota.

1. Audit Finding 2

The University of Minnesota used \$43,330 for unallowable costs that included charges for moving and storage expenditures and food costs.

University of Minnesota Response

The Capital Planning and Project Management (CPPM) accounting staff have incorporated a review of unallowable costs into the department's processes. Contacts: Bernie Fiske, University Services Finance (612-625-6669) or Shari Zeise, University Services Finance (612-625-9429). Completed: October 1, 2008.

The CPPM accounting staff will review the activity on 2006 bond accounts to identify unallowable expenses and transfer those expenses to accounts that are more appropriate. Contacts: Bernie Fiske, University Services Finance or Shari Zeise, University Services Finance. Completion Date: January 31, 2009.

2. Audit Finding 4

Some entities used bond funds for internal project management costs without clearly connecting those costs to authorized projects.

University of Minnesota Response

The University has followed a practice of charging internal project management costs to projects based upon a fixed percentage rate that reflected an assessment of the time requirements devoted by internal project management staff to a project. The actual percentage charged varied by the dollar value of the project. This approach was

developed, in part, to avoid the need for costly administrative systems and their related overhead costs. The University believes that this approach is a reasonable practice. The University is not opposed to altering its current practice. However, the University is still unclear as to what is the appropriate level of documentation that should be employed in these circumstances in order to more clearly connect those costs to authorized projects. In addition, the University does not want to embark on development of a new approach that would be inconsistent with the practice of other recipients of state bond funds. While we still believe that the current approach provides for the most cost effective and efficient means of paying for internal project management costs, the University's Office of Budget and Finance and University Services will take corrective action on this issue once the University receives direction from the State Department of Finance. Contacts: Richard Pfutzenreuter III, Office of Budget and Finance (612-625-4517) and Bernie Fiske, University Services Finance (612-625-6669).

3. Audit Finding 6

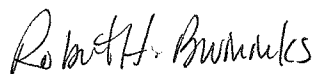
The University of Minnesota did not submit plans and project costs to the Legislature, as required by statute.

University of Minnesota Response

The University of Minnesota is now in compliance with the statute and will continue to submit program plans and cost estimates to the chairs of the House Ways and Means Committee and the Senate Finance Committee for approval. To ensure compliance, CPPM will insert a step in its processes that will trigger notification to the proper state committees and agencies at the end of the Design Development phase. Contacts: Gary Summerville, CPPM (612-625-8363), and Justin Grussing, CPPM (612-626-1365). Completed: Now submitting program plans and cost estimates. Completion Date for process changes: January 31, 2009.

Please contact me if you have questions or need additional clarification.

Sincerely,



Robert H. Bruininks
President

RHB:

cc: Richard Pfutzenreuter, vice president & CFO, Office of Budget and Finance
Kathleen O'Brien, vice president, University Services
Bernadette Fiske, assistant vice president, University Services Finance
Al Willie, audit manager, Office of Internal Audit