
ANNUAL FINANCIAL REPORT

OF THE

MINNESOTA STATE SENATE

For the years ended June 30, 1985 and 1984

MINNESOTA STATE SENATE

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RESPONSE TO FINDINGS AND RECOMMENDATIONS

PATRICK E. FLAHAVEN
Secretary of the Senate

Senate

State of Minnesota

December 16, 1985

The Honorable Roger D. Moe, Chairman
Committee on Rules and Administration
208 State Capitol
St. Paul, Minnesota

Dear Senator Moe:


Herewith transmitted is the audit report by the accounting firm of Peat, Marwick, Mitchell & Co., conducted under a contract entered into by the Senate to cover fiscal year 1985.

Last year's audit was helpful to the Senate staff in conducting internal operations. As chief administrative officer of the Senate, I have set forth my plans to implement the auditor's recommendations in a letter attached at the conclusion of the report.

The personnel who performed the audit did so in a thorough and professional manner.

I recommend that the Senate conduct an audit at the close of fiscal year 1986.

Sincerely,


Patrick E. Flahaven
Secretary of the Senate

PEF:sb

MINNESOTA STATE SENATE

Statements of Status of Appropriations and Expenditures

For the years ended June 30, 1985 and 1984



Peat, Marwick, Mitchell & Co.
Certified Public Accountants
1700 IDS Center
Minneapolis, Minnesota 55402

Secretary of the Senate
Minnesota State Senate:

We have examined the statements of status of appropriations and expenditures of the Minnesota State Senate for the years ended June 30, 1985 and 1984. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned statements present fairly the status of appropriations and expenditures of the Minnesota State Senate for the years ended June 30, 1985 and 1984 in conformity with generally accepted accounting principles applied on a consistent basis.

Peat, Marwick, Mitchell & Co.

September 25, 1985

MINNESOTA STATE SENATE

Statements of Status of Appropriations

For the years ended June 30, 1985 and 1984

| | <u>1985</u> | <u>1984</u> |
|--|----------------------|----------------------|
| Appropriation carryforward, beginning of year | \$ 720,416 | 456,238 |
| Appropriation for the year | 9,370,500 | 8,253,400 |
| Other receipts for the year | 13,073 | 7,137 |
| Expenditures for the year | (<u>9,854,808</u>) | (<u>7,996,359</u>) |
| Appropriation carryforward, end of year | \$ <u>249,181</u> | <u>720,416</u> |

See accompanying notes to statements.

MINNESOTA STATE SENATE

Statements of Expenditures

For the years ended June 30, 1985 and 1984

| | <u>1985</u> | <u>1984</u> |
|--|---------------------|------------------|
| Salaries and benefits | \$ 7,236,351 | 6,077,434 |
| Contractual expenditures | 1,275,514 | 807,064 |
| Travel, per diem, telephones and postage | 1,097,346 | 948,580 |
| Supplies and material | 154,647 | 148,578 |
| Capital outlay - equipment | <u>90,950</u> | <u>14,703</u> |
| | <u>\$ 9,854,808</u> | <u>7,996,359</u> |

See accompanying notes to statements.

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Notes to Statements

June 30, 1985 and 1984

(1) Summary of Significant Accounting Policies

The accounting policies of the Minnesota State Senate (the Senate) conform to generally accepted accounting principles as applicable to governmental units. The following is a summary of the more significant accounting policies:

(a) Financial Reporting Entity

The Minnesota State Senate was established in 1858. The Senate consists of 67 members who are elected by Minnesota voters to serve four-year terms making laws for the State of Minnesota (the State) and its people, and proposing amendments to the State Constitution. The Senate is part of the legislative branch of the State government and, as such, its financial transactions are included in the General Fund and become part of the State financial reporting entity. The financial statements of the general fund of the State are examined by the Office of the Legislative Auditor.

(b) Basis of Presentation

The Senate is funded by an appropriation from the General Fund of the State. The unspent portion of the appropriation is carried forward indefinitely and, in accordance with specific approval procedures, is available currently for unbudgeted, major expenditures. The cumulative amount of the unspent portion of appropriations is included in the statement of status of appropriations. The Senate's expenditures are classified according to State administrative guidelines.

(c) Disbursement of Funds

Senate expenditures are disbursed by the State Department of Finance.

(d) Budgetary Accounting

The Senate adopts a budget for each year of the State's fiscal biennium that reflects the total amount that can be expended by the Senate. Budgets for each year in a biennium are prepared by the Senate's administrative staff and discussed with the Senate Finance Committee. The budget must be approved by the Senate Finance Committee, the Senate and the State House of Representatives. The approved budget is

(Continued)

MINNESOTA STATE SENATE

submitted to the State Department of Finance and an appropriation for the budgeted amount is awarded for each year in the biennium. Expenditures cannot legally exceed the total initially budgeted unless supplemental appropriations are approved by the State Commissioner of Finance or unspent appropriations carried forward from previous years are available.

(e) Vacation and Sick Leave Policy

Permanent employees accrue vacation and sick leave according to State administrative guidelines. Senators and temporary employees do not accrue vacation or sick leave. Upon severance, permanent employees are compensated for all of their earned but unused vacation and a percentage of their accumulated sick leave depending upon length of State service.

(f) Fixed Assets

Fixed assets are recorded as expenditures consistent with the procedures for governmental fund-type accounting. The Senate maintains a record of its fixed assets at historical cost in a memorandum ledger. No depreciation has been charged on these assets.

(2) Pension Plans

The Senate is involved in two pension programs as follows:

- (a) Senators are covered by the Legislative Retirement Plan, a defined benefit plan which is administered by the Minnesota State Retirement System. Senators contribute nine percent of their salaries to the plan. Senators' contributions are deposited into the State's General Fund. Upon retirement of a senator, funds equal to the present value of future benefits to be paid to that senator are transferred from the General Fund to the Minnesota Post Retirement Investment Fund. The Senate makes no direct contribution to the plan and is not responsible for any unfunded liability of the plan.
- (b) All permanent employees of the Senate are covered by the Unclassified Retirement Plan, a defined contribution plan which is also administered by the Minnesota State Retirement System. Employees contribute four percent of their salaries and the Senate contributes six percent of salaries to the plan. The Senate's contribution was \$254,743 in 1985 and \$221,585 in 1984.

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MINNESOTA STATE SENATE

(3) Unpaid Employee Benefits

The Senate does not record accrued liabilities for vacation and sick leave to which its employees are entitled in its financial statements. These expenses are recorded as they are paid. This practice is consistent with the accounting treatment for governmental funds [see note 1(a)]. Statement 4 of the National Council on Governmental Accounting specifies that the portion of a liability that is not to be liquidated with expendable available financial resources is to be reported in the general long-term debt account group.

At June 30, 1985 the accrued liabilities for vacation and sick leave which would be payable as severance pay and reported in the State of Minnesota general long-term debt account group are as follows:

| | |
|------------|-------------------|
| Vacation | \$ 319,185 |
| Sick leave | <u>52,267</u> |
| Totals | \$ <u>371,452</u> |

(4) Reconciliation of Senate Statements to Department of Finance Budgetary Reports

The statements of status of appropriations and expenditures are not in complete agreement with budgetary reports of the State Department of Finance. Differences exist because the Senate statements are presented on an accrual basis and the Department of Finance reports are presented on a cash basis, except that at year end encumbered amounts are included in expenditures. The following is a reconciliation of expenditures reported in the Senate statements to the expenditures included in the budgetary reports:

| | <u>Department of Finance reports</u> | <u>Accrual basis adjustments</u> | <u>Senate financial statements</u> |
|--|--|--|--|
| Appropriation carryforward, beginning of year | \$ 775,478 | (55,062) | 720,416 |
| Appropriation for the year | 9,370,500 | - | 9,370,500 |
| Other receipts for the year | 13,073 | - | 13,073 |
| Expenditures for the year | <u>(9,797,705)</u> | <u>(57,103)</u> | <u>(9,854,808)</u> |
| Appropriation carryforward, end of year | \$ <u>361,346</u> | <u>(112,165)</u> | <u>249,181</u> |



Peat, Marwick, Mitchell & Co.
Certified Public Accountants
1700 IDS Center
Minneapolis, Minnesota 55402

REPORT ON INTERNAL CONTROL

September 25, 1985

Secretary of the Senate
Minnesota State Senate:

We are presenting, for your consideration, our comments and recommendations regarding internal accounting control and other operating matters. These came to our attention during the course of our examination of the financial statements of the Minnesota State Senate for the year ended June 30, 1985, which we reported upon as of September 25, 1985.

As a result of our examination we did not identify any condition that we believed to be a material weakness in internal accounting control. This information, however, should be considered in light of Exhibit III, which describes the purpose of our study and evaluation of internal accounting control as part of our examination. Such information is intended solely for the use of your management in assessing the control environment.

The format of the additional sections of the letter is as follows:

- Exhibit I - Status of Prior Year's Comments and Recommendations
- Exhibit II - Comments and Recommendations
- Exhibit III - Scope of Internal Accounting Control Review

The comments and recommendations presented in Exhibit II are intended to result in improved internal control and operating efficiencies. It should be noted that this letter, by its nature, primarily contains our comments and recommendations for improvements and does not include our observations on the many strong features of the Senate's financial systems. The factual accuracy of our comments has been discussed with the management personnel responsible for each area so as to obtain their concurrence prior to the development of our recommendations for improvement.

We would like to take this opportunity to express our appreciation for the courtesy and assistance extended to us by Senate personnel during the course of our examination. In addition, we would be most pleased to provide assistance in implementing any of our recommendations.

Very truly yours,

Peat, Marwick, Mitchell & Co.

MINNESOTA STATE SENATE

Status of Prior Year's Comments and Recommendations

During the course of our audit we examined the status of the Senate's implementation of the comments and recommendations made in our letter of February 15, 1985. Noted below, under the headings used in that letter, is the status of the Senate's implementation of our recommendations.

Preauthorized Expense Reimbursement Forms

We noted during our audit that the fiscal services accountant is now following a policy of dating and initialling expense reimbursement forms.

Expense Reimbursement Documentation on Time Limit for Submission

See our follow-up comment in Exhibit II.

Consolidating Payroll Time Sheets

This recommendation was implemented in December 1984.

Backup and Training for Essential Personnel

An additional accounting clerk has been hired and is presently being trained in the duties of the other accounting clerks.

Accounting Procedure Manual

An accounting procedures manual has been prepared in draft form.

Computerized General Ledger

A computerized general ledger software system is presently being installed.

MINNESOTA STATE SENATE

Comments and Recommendations

STRENGTHENING INTERNAL ACCOUNTING CONTROLS

Expense Reimbursement Documentation and Time Limit for Submission

As discussed in our commentary letter dated February 15, 1985 we recommended that documentation supporting claims for expenses such as telephone, apartments and internships be submitted within a specified time of incurrence of the expense. During our audit for fiscal 1985 we again noted that documentation supporting some claims is still not being submitted.

INCREASING THE ACCURACY OF THE GENERAL LEDGER

Classification of Refunds

Occasionally, the Senate receives refunds from vendors for overpayments of vendor bills. These refunds are currently being recorded as revenue in the Senate Operations Special Account.

These refunds should not be recorded as revenue, but instead should be recorded as an adjustment to the account in which they were originally expensed to more precisely reflect the expenditure activity of the Senate.

Accrual of Expenses

Currently the general ledger program does not enable the Senate to accrue expenses at year end, and expenses to be paid for in fiscal year 1986, which relate to fiscal 1985 business, have to be manually accounted for at year end through audit adjustments.

The new automated general ledger should be modified to accrue expenses when they are incurred rather than recording such expenses when they are paid.

MINNESOTA STATE SENATE

Scope of Internal Accounting Control Review

Professional standards of the American Institute of Certified Public Accountants provide specific guidance to auditors when they issue a report on internal control based solely on the study and evaluation made in an audit of financial statements. The paragraphs that follow are based on the guidance provided by sections 642.48 and 642.49 of AICPA professional standards as codified (as of June 1, 1984).

As part of our examination of the statements of status of appropriations and expenditures, we perform a study and evaluation of the Senate's system of internal accounting control to the extent we consider necessary to evaluate the system as required by generally accepted auditing standards. The purpose of our study and evaluation, which did not extend beyond September 25, 1985, was to determine the nature, timing and extent of the auditing procedures necessary for expressing an opinion on the statements of status of appropriations and expenditures. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting control taken as a whole. This limitation is consistent with industry practices in conducting an audit of governmental funds or activities and with the approach to auditing commercial entities.

Management is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments made by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of statements of status of appropriations and expenditures in accordance with generally accepted accounting principles.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

A study and evaluation made for the limited purpose described above would not necessarily disclose all material weaknesses in the system. Accordingly, expression of an opinion on the system of internal accounting control taken as a whole cannot be made.



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Certified Public Accountants
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Minneapolis, Minnesota 55402

REPORT ON COMPLIANCE

Secretary of the Senate
Minnesota State Senate:

We have examined the statements of status of appropriations and expenditures of the Minnesota State Senate for the year ended June 30, 1985 and have issued our report dated September 25, 1985. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In connection with our examination we also performed tests of compliance with applicable laws and with the rules, resolutions, motions and orders of the Senate.

Based on these procedures, we noted, for the tested operations and records, the following instance of noncompliance:

Invoice Approval Policy

The Senate has a policy whereby invoices must be approved before payment. A review of invoices revealed that the approval on one invoice selected was missing. The Senate's policy requiring approvals should be enforced to ensure that the proper invoices are paid.

In connection with our examination, nothing came to our attention for the operations and records not tested to indicate that the Minnesota State Senate was in noncompliance with the aforementioned laws and rules, resolutions, motions and orders of the Senate. However, it should be noted that our examination was not directed primarily toward obtaining knowledge of such noncompliance.

Peat, Marwick, Mitchell & Co.

September 25, 1985

PATRICK E. FLAHAVEN
Secretary of the Senate

Senate
State of Minnesota
December 3, 1985

Peat, Marwick, Mitchell & Co.
1700 IDS Center
Minneapolis, Minnesota 55402

Gentlemen:

The recommendations that you made in last year's audit have been helpful to the Senate staff in conducting our internal operations. We will continue to use them as noted in Exhibit I of this year's audit. Our plans to implement your recommendations in Exhibit II are described below:

1. Expense Reimbursement Documentation and Time Limit for Submission

The Senate Committee on Rules and Administration has directed that requests for reimbursement for expenses must be submitted to the Fiscal Services Office within 90 days of the expense being incurred.

The Committee felt that the present system of documentation of claims for telephones, apartments and interns is sufficient.

2. Classification of Refunds

Refunds will now be recorded as an adjustment to the account for which they were originally expensed.

3. Accrual of Expenses

The new automated general ledger will be modified to record expenses on an accrual basis.

As to your recommendation on compliance of the invoice approval policy, we will be more diligent in enforcing our policy on approvals. The instance that you noted was an invoice for programming work on our IBM System 36 Computer.

Sincerely,



Patrick E. Flahaven
Secretary of the Senate

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