

ANNUAL FINANCIAL REPORT

OF THE

MINNESOTA STATE SENATE

For the year ended June 30, 1984

MINNESOTA STATE SENATE

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PATRICK E. FLAHAVEN  
Secretary of the Senate

# Senate

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## State of Minnesota

March 1, 1985

The Honorable Roger D. Moe, Chairman  
Committee on Rules and Administration

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 1984.

To my knowledge this is the first audit of a legislative body in the history of the state. As chief administrative officer of the Senate, my plans to implement the auditor's recommendations are contained in a letter attached at the conclusion of the report.

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

Another audit of the Senate will be done after the close of fiscal year 1985.

Sincerely,



Patrick E. Flahaven  
Secretary of the Senate



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 year ended June 30, 1984. 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 our opinion, the aforementioned statements present fairly the status of appropriations and expenditures of the Minnesota State Senate for the year ended June 30, 1984 in conformity with generally accepted accounting principles.

*Peat, Marwick, Mitchell & Co.*

December 14, 1984

MINNESOTA STATE SENATE

Statement of Status of Appropriations

For the year ended June 30, 1984

Appropriation carryforward, beginning of year	\$ 456,238
Appropriation for the year	8,253,400
Other receipts for the year	7,137
Expenditures for the year	<u>(7,996,359)</u>
Appropriation carryforward, end of year	\$ <u>720,416</u>

See accompanying notes to statements.

MINNESOTA STATE SENATE

Statement of Expenditures

For the year ended June 30, 1984

Salaries and benefits	\$ 6,077,434
Contractual expenditures	807,064
Travel per diem, telephones and postage	948,580
Supplies and material	148,578
Capital outlay - equipment	14,703
	\$ 7,996,359

See accompanying notes to statements.

MINNESOTA STATE SENATE

Notes to Statements

June 30, 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 \$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, 1984 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	\$ 240,352
Sick leave	<u>53,138</u>
Totals	\$ <u>293,490</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:

	Department of Finance reports	Accrual basis adjustments	Senate financial statements
Appropriation carryforward, beginning of year	\$ 475,257	(19,019)	456,238
Appropriation for the year	8,253,400		8,253,400
Other receipts for the year	7,167	(30)	7,137
Expenditures for the year	<u>(7,960,346)</u>	(36,013)	(7,996,359)
Appropriation carryforward, end of year	\$ 775,478	(55,062)	720,416



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

## REPORT ON INTERNAL CONTROL

February 15, 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, 1984, which we reported upon as of December 14, 1984.

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 II, 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 - Comments and Recommendations

Exhibit II - Scope of Internal Accounting Control Review

The comments and recommendations presented in Exhibit I 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

Comments and Recommendations

STRENGTHENING INTERNAL ACCOUNTING CONTROLS

Preauthorized Expense Reimbursement Forms

The expense reimbursement forms for senators are printed with the signature of the fiscal services accountant already on them. Even though the reimbursement forms are reviewed, there is no specific documentation of the review such as dating and initialling. We recommend that expense reimbursement forms' documentation include review and authorization by the fiscal services accountant.

Expense Reimbursement Documentation and Time Limit for Submission

Senators are reimbursed for certain expenses such as phone and apartment but are not required to submit any documentation supporting their claims for reimbursement. Neither is there any time limit for submission of claims. This may result in excessive time lags between incurrence of expense and recording the expenditure in the financial records of the Senate.

We recommend fully documented expense claims requiring submission within a certain time of incurrence of the expense. Such a policy would ensure that reimbursements are made for proper amounts on a timely basis. This would result in timely recordkeeping that more fairly reflects the expenses incurred to date.

IMPROVING OPERATIONAL EFFICIENCY

Consolidating Payroll Time Sheets

Senate employees are paid for two-week time periods although they prepare separate time sheets for each week of the period. To reduce processing time and paper costs we recommend the use of one time sheet for the entire two-week payroll period. Using one time sheet would reduce the time spent by the fiscal service accountant recording hours worked and vacation and sick time and also the tracking of sheets not received, signed or authorized.

This recommendation has been implemented.

Backup and Training for Essential Personnel

The smooth management of Senate sessions and administrative affairs is dependent upon the highly specialized skills of its personnel. The Senate has a small number of key administrative personnel that perform a wide range of administrative tasks. While the current staff size promotes efficiency, it also increases the risk of disruption of essential services if a key person is unavailable (vacation, sick leave or termination).

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## MINNESOTA STATE SENATE

## Comments and Recommendations, Continued

The risk of service interruption can be reduced by cross-training of individuals. We understand that this has been initiated on a limited basis.

Accounting Procedures Manual

The Senate does not have an accounting procedures manual. The primary advantage of such a manual is that it would provide documentation, in one place, of the entire financial operation of the Senate. A manual could facilitate an overall understanding of operations and provide detailed guidance to all personnel involved in the financial function. It could also be used to train new or backup personnel.

Computerized General Ledger

The Senate has utilized a computer to automate a number of accounting procedures. The general ledger, however, is maintained manually. The Senate's computer software is capable of preparing a general ledger. Having the general ledger automatically prepared by computer would provide the Senate staff with more time for performing other duties.

We recommend exploring the possibility of using the automated ledger capability.

## 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 December 14, 1984, 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.



Peat, Marwick, Mitchell & Co.  
Certified Public Accountants  
1700 IDS Center  
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, 1984 and have issued our report dated December 14, 1984. 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 instances of noncompliance:

### Travel Authorization Policy

The Senate has a policy that any senator or employee who is going to travel must first have his or her trip authorized by the Committee Chairman and the Chairman of the Committee on Rules and Administration. We noted one instance of noncompliance with this policy.

During fiscal year 1984 a senator went on a trip without first getting the required authorization. He subsequently obtained authorization after the trip was completed.

### Approval of Time Sheets

It is Senate policy that time sheets must be approved and signed by an employee's supervisor. A review of time sheets revealed that approvals were missing on several time sheets. The Senate's policy requiring approvals is a good one and should be enforced to ensure that time worked is properly reported.

Based on the above procedures, 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.

*Peat, Marwick, Mitchell & Co.*

December 14, 1984

PATRICK E. FLAHAVEN  
Secretary of the Senate

# Senate

## State of Minnesota

February 28, 1985

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

Gentlemen:

Thank you for helping the Minnesota Senate to strengthen its internal accounting controls and improve its operational efficiency. Our plans to implement your recommendations are described below.

1. We concur with your recommendation that expense reimbursement forms be dated and initialed by the fiscal services accountant. Beginning February 6, 1985, the fiscal services accountant has been dating and initialing all these forms.

2. Your recommendation that Senators' claims for reimbursement for certain expenses such as phone and apartment be supported by documentation and be required to be submitted within a certain time limit will be presented to the Committee on Rules and Administration so that they may determine what documentation and time limit would be appropriate.

3. Your recommendation to use one time sheet for each two-week payroll period was implemented beginning with the payroll period that began December 29, 1984.

4. We concur with your recommendation that backup and cross-training be provided for key administrative personnel. We have begun to identify the personnel for training and will follow up on this process. Full implementation of this recommendation may require additional administrative personnel.

5. We concur with your recommendation that the Senate prepare an accounting procedures manual. Work on the manual has begun. Estimated completion date is July 1, 1985.

6. We concur with your recommendation that the Senate's general ledger be automatically prepared by the Senate's computer. Staff has been directed to secure the necessary software to do this. Estimated date to discontinue use of the manual general ledger is July 1, 1985.

Peat, Marwick, Mitchell & Co.  
February 28, 1985  
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7. We concur with your recommendation that the Senate enforce its policy requiring that an employee's time sheet be approved and signed by the employee's supervisor.

Sincerely,

A handwritten signature in cursive script, reading "Patrick E. Flahaven", followed by a horizontal flourish line.

Patrick E. Flahaven  
Secretary of the Senate