

MINNESOTA STATE SENATE

Statements of Status of
Appropriations and Expenditures

For the years ended June 30, 1990 and 1989

MINNESOTA STATE SENATE

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REPORT ON COMPLIANCE

Independent Auditors' Report on Compliance

RESPONSE TO FINDINGS AND RECOMMENDATIONS

PATRICK E. FLAHAVEN
Secretary of the Senate

Senate
State of Minnesota

January ~~31~~, ~~1991~~

7, 1991

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 Main & Co., conducted under a contract entered into by the Senate to cover fiscal year ~~1990~~.

In my role as chief operating officer of the Senate, I have observed that the recommendations that have been made over the past few years in these audits have been helpful to the Senators and staff in conducting internal operations.

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

The Senate will conduct an audit at the close of fiscal year ~~1991~~.

1991

Sincerely,

Patrick E. Flahaven
Patrick E. Flahaven
Secretary of the Senate

PEF:sb

*Steve Lamber*Independent Auditors' ReportSecretary of the Senate
Minnesota State Senate:

We have audited the accompanying statements of status of appropriations and expenditures of the Minnesota State Senate for the years ended June 30, 1990 and 1989. These statements are the responsibility of the Senate's management. Our responsibility is to express an opinion on these statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the statements referred to above present fairly, in all material respects, the status of appropriations and expenditures of the Minnesota State Senate for the years ended June 30, 1990 and 1989 in conformity with generally accepted accounting principles.

KPMG Peat Marwick

December 7, 1990

MINNESOTA STATE SENATE

Statements of Status of Appropriations

For the years ended June 30, 1990 and 1989

	<u>1990</u>	<u>1989</u>
Appropriation carryforward, beginning of year	\$ 430,002	538,863
Appropriation for the year	15,920,000	14,300,800
Other receipts for the year	12,622	26,324
Expenditures for the year	(14,495,225)	(14,435,985)
Appropriation carryforward, end of year	\$ <u>1,867,399</u>	<u>430,002</u>

See accompanying notes to statements.

MINNESOTA STATE SENATE

Statements of Expenditures

For the years ended June 30, 1990 and 1989

	<u>1990</u>	<u>1989</u>
Salaries and benefits	\$ 10,791,204	9,980,210
Contractual expenditures	1,093,844	1,626,706
Travel, per diem, telephones and postage	1,358,914	1,563,317
Supplies and materials	345,367	396,748
Capital outlay – equipment	<u>905,896</u>	<u>869,004</u>
	\$ <u>14,495,225</u>	<u>14,435,985</u>

See accompanying notes to statements.

MINNESOTA STATE SENATE

Notes to Statements

June 30, 1990 and 1989

(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 Senate was established in 1858. It 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 statements of status of appropriations. The Senate's expenditures are classified according to State administrative guidelines.

(c) Basis of Accounting

Basis of accounting refers to when transactions are recognized in the accounts and reported in the financial statements. Specifically, it relates to the timing of the measurement made, regardless of the nature of the measurement.

The financial statements of the Senate are prepared on the modified accrual basis of accounting as appropriate for governmental funds. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred, if measurable. An exception to this general rule is for accumulated unpaid vacation and sick leave, which is not recognized until paid.

(d) Disbursement of Funds

Funds are disbursed by the State's Department of Finance.

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MINNESOTA STATE SENATE

(e) 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. The budget is first reviewed and approved by the Rules and Administration Senate Budget Subcommittee. Based on the Subcommittee's recommendation, the Committee on Rules and Administration adopts an operating budget for the Senate. The budget is then referred to 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 submitted to the State's 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.

(f) 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 and the nature of their severance (voluntary or involuntary).

(g) Fixed Assets

Fixed asset acquisitions 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.

(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. These 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.

(Continued)

MINNESOTA STATE SENATE

- (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 \$404,874 in 1990 and \$370,500 in 1989.

(3) Compensated Absences

Statement 4 of the National Council on Governmental Accounting, as recognized by Government Standards Board Statement 1, specifies that the liability for unpaid vacation and sick leave in which employees are entitled to is to be reported in the General Long-term Debt Account Group if it is not to be liquidated with expendable available financial resources. Consistent with this Statement, the Senate does not record accrued liabilities for compensated absences but recognizes these expenses as they are paid. Such liability related to the Senate is reported in the State's General Long-term Debt Account Group.

The accrued liabilities for vacation and sick leave which would be payable as severance pay are as follows:

	<u>1990</u>	<u>1989</u>
Vacation	\$ 518,453	473,631
Sick leave	309,456	258,641
Totals	\$ <u>827,909</u>	<u>732,272</u>

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

The accompanying statements of status of appropriations and expenditures are prepared on a different basis of accounting than the budgetary reports of the State's Department of Finance. The Senate statements are presented on the modified 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. As a result, differences exist between expenditures reported in the Senate financial statements and expenditures reported by the Department of Finance. 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	\$ 559,607	(129,605)	430,002
Appropriation for the year	15,920,000	-	15,920,000
Other receipts for the year	50,643	(38,021)	12,622
Expenditures for the year	(14,470,134)	(25,091)	(14,495,225)
Appropriation carryforward, end of year	\$ <u>2,060,116</u>	<u>(192,717)</u>	<u>1,867,399</u>

Certified Public Accountants

4200 Norwest Center
90 South Seventh Street
Minneapolis, MN 55402

Independent Auditors' Report on Internal Accounting Control

Secretary of the Senate
Minnesota State Senate:

We have audited the statements of status of appropriations and expenditures of the Minnesota State Senate for the year ended June 30, 1990, and have issued our report thereon dated December 7, 1990. As part of our audit we made a study and evaluation of the system of internal accounting control of the Minnesota State Senate to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards and the standards for financial and compliance audits contained in the Standards for Audit of Governmental Organizations, Programs, Activities, and Functions, issued by the U.S. General Accounting Office. For the purpose of this report, we have classified the significant internal accounting controls in the following categories: appropriations, purchases/disbursements, and payroll. Our study and evaluation included all control categories listed above. The purpose of our study and evaluation was to determine the nature, timing and extent of auditing procedures necessary for expressing an opinion on the financial statements of the Minnesota State Senate. 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 or on any of the categories of control identified above.

The management of the Minnesota State Senate is responsible for establishing and maintaining a system of internal accounting control. In fulfilling that responsibility, estimates and judgments 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 financial statements 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.



Our study and evaluation made for the limited purpose described in the first paragraph would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of internal accounting control of the Minnesota State Senate, taken as a whole or on any of the categories of controls identified in the first paragraph. However, our study and evaluation and our audit disclosed no condition that we believe to be a material weakness.

The status of recommendations from the prior year to improve controls and operations is presented in Exhibit I and current recommendations are presented in Exhibit II.

This report is intended solely for the use of management and the Minnesota State Senate and should not be used for any other purpose. This restriction is not intended to limit the distribution of this report, which, upon acceptance by the Minnesota State Senate, is a matter of public record.

KPMG Peat Marwick

December 7, 1990

MINNESOTA STATE SENATE

Status of Prior Year Comments and Recommendations Regarding
Internal Accounting Controls and Operations

During our audit we reviewed the status of the Senate's implementation of the comments and recommendations made in our letter of December 13, 1989. Noted below, under the headings used in that letter, is the status of the Senate's implementation of our recommendations.

BUDGET MONITORING PROCEDURES

The Senate completed implementation of its computerized general ledger program in the latter part of 1990. In 1991, Senate staff will modify the general ledger reports currently printed to include budget versus actual activity.

PAYROLL MONITORING AND PROCESSING PRACTICES

The Senate has ordered an updated version of the computer software package which monitors sick and vacation hour information for employees. The new version will correct minor processing problems which delayed the conversion from the manual system currently in place.

A contractor has been retained to develop written documentation on procedures to be performed relating to the computerized vacation and sick hour information.

In order to reduce the time spent searching for employee time sheets, the Payroll Department implemented a new procedure in 1990 which allows them to charge an employee's vacation hours when their time sheet for the pay period is missing. A standard form is sent to employees who submit incorrect or incomplete time sheets.

TRAVEL AND MEETING AUTHORIZATION PROCEDURES

The Accounts Payable Department has effectively reduced the time spent making inquiries regarding missing travel and meeting authorizations by delaying reimbursement until proper authorization is received.

MINNESOTA STATE SENATE

Current Year Comments and Recommendations Regarding
Internal Accounting Controls and Operations

GENERAL LEDGER RECONCILIATIONS

The Senate began reconciling the computerized general ledger system to the Department of Finance reports in 1990. In order to complete these monthly reconciliations, the employer's share of FICA, MSRS and insurance is manually calculated by committee and then input to the computer general ledger system. The Payroll and Accounts Payable Departments spend approximately six hours per pay period accumulating and entering this data.

We recommend that the Senate consider entering FICA, MSRS and insurance amounts in total versus by committee, as these manual calculations would be eliminated and processing time would be greatly reduced. The Senate should also consider whether it is necessary to track salary and benefit information by committee, as these costs cannot be directly controlled by the committee members.

LONG DISTANCE PHONE USAGE

The Senate has installed a WATS line to reduce rates on long distance phone service. Occasionally, employees will use the regular phone service for long distance calls instead of the WATS line.

We recommend that the Senate obtain explanations for all regular long distance phone bills over a specified dollar amount. Additionally, a memo reiterating long distance phone procedures should be circulated to all employees.

Certified Public Accountants

4200 Norwest Center
90 South Seventh Street
Minneapolis, MN 55402

Independent Auditors' Report on Compliance

Secretary of the Senate
Minnesota State Senate:

We have audited the statements of status of appropriations and expenditures of the Minnesota State Senate for the year ended June 30, 1990, and have issued our report thereon dated December 7, 1990. Our audit was made in accordance with generally accepted auditing standards and the standards for financial and compliance audits contained in the Standards for Audit of Governmental Organizations, Programs, Activities, and Functions, issued by the U.S. General Accounting Office and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The management of the Minnesota State Senate is responsible for compliance with laws and regulations. In connection with the audit referred to above, we performed tests of records and transactions to determine the Minnesota State Senate's compliance with those laws and regulations for which noncompliance could have a material effect on the Minnesota State Senate's statements.

The results of our tests indicated that for the transactions and records tested, the Minnesota State Senate complied with those laws and regulations for which noncompliance could have a material effect on the Minnesota State Senate's statements. With respect to the transactions and records that were not tested by us, nothing came to our attention to indicate that the Minnesota State Senate had not complied with laws and regulations.

KPMG Peat Marwick

December 7, 1990



RESPONSE TO FINDINGS AND RECOMMENDATIONS

PATRICK E. FLAHAVEN
Secretary of the Senate

Senate
State of Minnesota

January 4, 1991

Peat Marwick Main & Co.
4200 Norwest Center
90 South Seventh Street
Minneapolis, MN 55402

Gentlemen:

We will consider your recommendations on the general ledger reconciliations. However, before we adopt a new practice regarding the FICA, MSRS and insurance cost allocations, we want to be sure that it does not impair our ability to allocate costs.

We will implement your recommendations on long distance phone usage as we want to obtain maximum benefit from the reduced cost on the WATS lines.

Sincerely,


Patrick E. Flahaven
Secretary of the Senate

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