



Certified Public Accountants

MINNESOTA STATE SENATE

**Statements of Status of
Appropriations and Expenditures**

For the years ended June 30, 1989 and 1988

MINNESOTA STATE SENATE

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RESPONSE TO FINDINGS AND RECOMMENDATIONS

PATRICK E. FLAHAVEN
Secretary of the Senate

Senate

State of Minnesota

January 30, 1990

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 1989.

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.

I recommend that the Senate conduct an audit at the close of fiscal year 1990.

Sincerely,


Patrick E. Flahaven
Secretary of the Senate

PEF:sb

Certified Public Accountants

4200 Norwest Center
90 South Seventh Street
Minneapolis, MN 55402

Independent Auditors' Report

Secretary 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, 1989 and 1988. 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, 1989 and 1988 in conformity with generally accepted accounting principles.

KPMG Peat Marwick

December 13, 1989

MINNESOTA STATE SENATE
Statements of Status of Appropriations
For the years ended June 30, 1989 and 1988

	<u>1989</u>	<u>1988</u>
Appropriation carryforward, beginning of year	\$ 538,863	149,204
Appropriation for the year	14,300,800	12,428,700
Other receipts for the year	26,324	4,313
Expenditures for the year	<u>(14,435,985)</u>	<u>(12,043,354)</u>
Appropriation carryforward, end of year	\$ <u>430,002</u>	<u>538,863</u>

See accompanying notes to statements.

MINNESOTA STATE SENATE

Statements of Expenditures

For the years ended June 30, 1989 and 1988

	<u>1989</u>	<u>1988</u>
Salaries and benefits	\$ 9,980,210	9,090,904
Contractual expenditures	1,626,706	1,053,337
Travel, per diem, telephones and postage	1,563,317	1,229,346
Supplies and materials	396,748	208,158
Capital outlay - equipment	<u>869,004</u>	<u>461,609</u>
	\$ <u>14,435,985</u>	<u>12,043,354</u>

See accompanying notes to statements.

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Notes to Statements

June 30, 1989 and 1988

(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 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.

(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 \$370,500 in 1989 and \$336,244 in 1988.

(3) Compensated Absences

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. Statement 4 of the National Council on Governmental Accounting, as recognized by Government Standards Board Statement 1, specifies that the portion of the liability that is not to be liquidated with expendable available financial resources is to be reported in the general long-term debt account group. Such portion of the 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>1989</u>	<u>1988</u>
Vacation	\$ 473,631	391,969
Sick leave	<u>258,641</u>	<u>216,674</u>
Totals	\$ <u>732,272</u>	<u>608,643</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	\$ 679,599	(140,736)	538,863
Appropriation for the year	14,300,800	-	14,300,800
Other receipts for the year	48,895	(22,571)	26,324
Expenditures for the year	(14,468,541)	32,556	(14,435,985)
Cancellations for the year	<u>(1,146)</u>	<u>1,146</u>	<u>-</u>
Appropriation carryforward, end of year	\$ <u>559,607</u>	<u>(129,605)</u>	<u>430,002</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, 1989, and have issued our report thereon dated December 13, 1989. 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 administrative procedures 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 13, 1989

MINNESOTA STATE SENATE

Status of Prior Year Comment and Recommendation Regarding
Internal Accounting Controls and Operations

During our audit we reviewed the status of the Senate's implementation of the comment and recommendation made in our letter of October 17, 1988. Noted below, under the heading used in that letter, is the status of the Senate's implementation of our recommendation.

UTILIZATION OF COMPUTERIZED GENERAL LEDGER SYSTEM

The Senate is currently working with its contracted programmer to develop a general ledger report which will allow employees to determine whether general ledger transactions have been posted properly. The general ledger report will then be used to reconcile Senate financial records to Department of Finance records.

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Current Year Comments and Recommendations Regarding
Internal Accounting Controls and Operations

BUDGET MONITORING PROCEDURES

Currently, the Senate manually totals each general ledger account balance after posting the current activity. Additionally, account balances are manually inputted into a separate computerized spreadsheet to analyze year-to-date activity against the budget.

We recommend that the Senate consider making modifications to its general ledger package to produce reports that show budgeted versus actual activity. One report should be structured to show annual budget, year-to-date expenditures, and variance between budget and actual based on amount and percentage difference.

A second report could be created to project expenditures out by month given past history of expenditure timing, since the Senate's monthly level of expenditures varies significantly depending upon the legislative session. Monthly projections could then be compared to actual expenditures to make better estimates of budget surplus and deficiencies. By utilizing the computerized general ledger for budget monitoring, information can be prepared on a more timely basis and personnel will have more time available for additional duties.

An assessment regarding the practicality of more fully utilizing the general ledger package for budgeting purposes should be made by Senate staff.

PAYROLL MONITORING AND PROCESSING PRACTICES

The Minnesota State Senate is not utilizing a new computer software package that monitors vacation and sick hour information for employees. This information is currently accumulated on a manual basis. Use of this computer software would allow the vacation and sick hour information to be updated automatically, thus reducing the amount of total time spent monitoring this information. Furthermore, vacation and sick hour information could be printed on an employee's pay check stub which would reduce the number of inquiries made by employees to the Payroll Department regarding available hours of sick and vacation time.

We also recommend that the Senate consider utilizing a contractor to develop written documentation regarding all procedures to be performed relating to the computerized vacation and sick hour system. This information should be included within the accounting policies and procedures manual.

Payroll Department efficiency could also be improved by eliminating the practice of the Payroll Department searching for missing employee time sheets. The Payroll Department spends approximately ten hours every pay period making inquiries regarding time sheets. The Senate should reiterate to employees that time sheet submission is an individual's responsibility.

To improve department efficiency, lack of time sheet submission should result in an employee's vacation hours being charged rather than payroll employees searching for the time sheets. Additionally, when incomplete or incorrectly completed time sheets are submitted, a standard form describing problems should be sent to the employee to eliminate phone inquiries.

MINNESOTA STATE SENATE

TRAVEL AND MEETING AUTHORIZATION PROCEDURES

Currently, in-state travel and meeting expenditures must be authorized by the appropriate committee chairperson prior to payment. Frequently, these authorizations are not received by the Accounts Payable Department prior to payment request. As a result, the department spends approximately five to ten hours every week making inquiries regarding missing travel and meeting authorizations.

In order to eliminate these inefficiencies, the Senate should reiterate to members and employees that travel and meeting authorization submission is an individual's responsibility. Payments should also be delayed until proper authorization is received and a standard form describing the problem should be sent to the employee to eliminate phone inquiries.

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, 1989, and have issued our report thereon dated December 13, 1989. 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 result 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 13, 1989



RESPONSE TO FINDINGS AND RECOMMENDATIONS

PATRICK E. FLAHAVEN
Secretary of the Senate

Senate
State of Minnesota

January 30, 1990

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

Gentlemen:

Utilization of the computerized general ledger system is an on-going process in our Fiscal Services Department. Enhancements and improvements will be adopted as they are developed.

Budget monitoring procedures for the Senate operating funds are now done on a PC program. We think your recommendation on using the System 36 will be helpful and we will implement it as soon as possible.

We have experimented with a computer software package for the System 36 for monitoring vacation and sick leave information and expect to adopt it shortly.

We will adopt your recommendation that late submission of employees' time records shall result in that employee's vacation hours being charged or no check issued.

We will also implement your recommendation that payments for travel expenses shall be delayed until written authorization is received.

Sincerely,



Patrick E. Flahaven
Secretary of the Senate

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