

**FINANCIAL STATEMENTS AND REPORTS OF
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS**

MINNESOTA STATE SENATE

June 30, 1994 and 1993

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Secretary of the Senate
Minnesota State Senate

We have audited the accompanying statements of status of appropriations and expenditures of the Minnesota State Senate (Senate) as of and for the years ended June 30, 1994 and 1993. These financial statements are the responsibility of the Senate's management. Our responsibility is to express an opinion on these financial 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provides a reasonable basis for our opinion.

As described in note A, the financial statements of the Senate are intended to present only that portion of the State of Minnesota financial statements that is attributable to the transactions of the Senate.

In our opinion, the financial statements referred to above present fairly, in all material respects, the status of appropriations and expenditures of the Minnesota State Senate as of and for the years ended June 30, 1994 and 1993 in conformity with generally accepted accounting principles.

The statistical information listed in the table of contents is not necessary for a fair presentation of the financial statements, but is presented as additional analytical data. This information is unaudited and we do not express an opinion on it.

Minneapolis, Minnesota
October 21, 1994



Minnesota State Senate

STATEMENTS OF STATUS OF APPROPRIATIONS

For the years ended June 30, 1994 and 1993

	<u>1994</u>	<u>1993</u>
Appropriation carryforward, beginning of year	\$ 1,273,303	\$ 2,078,287
Appropriation for the year:		
Original appropriation	14,736,000	16,068,000
Allocated base cut	-	(149,000)
Reduction	-	(61,684)
Cancellation/return to State General Fund	<u>-</u>	<u>(1,275,000)</u>
	14,736,000	14,582,316
Other receipts for the year	60,257	58,334
Expenditures for the year	<u>(14,470,141)</u>	<u>(15,445,634)</u>
Appropriation carryforward, end of year	<u>\$ 1,599,419</u>	<u>\$ 1,273,303</u>

*share of
LCC cut
- premium
holiday*

The accompanying notes are an integral part of these statements.

Minnesota State Senate

STATEMENTS OF EXPENDITURES

For the years ended June 30,

	<u>1994</u>	<u>1993</u>
Salaries and benefits		
Salaries - senators	\$ 1,908,165	\$ 1,894,114
Salaries - staff	7,646,528	7,960,524
MSRS and FICA, and other benefits	1,018,601	1,039,654
Insurance - staff	627,945	566,668
Insurance - senators	258,415	243,167
Unemployment compensation	29,184	39,825
Workers' compensation	<u>11,770</u>	<u>18,348</u>
	11,500,608	11,762,300
Services		
Rents, leases and maintenance (includes copy equipment)	83,082	177,376
Employment and publicity advertisement	20,074	18,972
Furniture and maintenance repairs	11,711	31,015
Maintenance agreements	164,559	162,022
Printing	742,952	862,243
Micrographics	202	2,165
Consultant expense	59,844	67,855
EDP-ISB	11,072	10,528
EDP-software	32,935	28,645
EDP-development (includes equipment)	191,858	67,615
Janitorial	80,949	89,761
Dry cleaning/carpet cleaning	8,186	3,030
Interns	<u>24,924</u>	<u>43,586</u>
	1,432,348	1,564,813
Subsistence		
Postage	145,250	172,366
Telephones	242,679	358,629
Delivery service	5,416	5,067
Mailing service	3,597	11,864
Mileage	177,511	119,942
In-state travel/lodging	154,292	161,904
Per diem	320,874	463,678
Registration	45,901	30,651
State vehicle	1,891	424
Out-state travel	131,460	85,286
Tuitions/memberships/admissions	<u>40,739</u>	<u>25,218</u>
	1,269,610	1,435,029

Minnesota State Senate

STATEMENTS OF EXPENDITURES - CONTINUED

For the years ended June 30,

	<u>1994</u>	<u>1993</u>
Furniture, supplies, equipment and capital outlay		
Video	\$ 23,236	\$ 99,010
Photographic	5,408	18,414
Furniture and equipment	16,998	39,880
Capital outlay	10,938	122,379
Office supplies/stationery	103,339	270,060
Newspaper and publications	39,880	44,240
Water and coolers	7,112	8,649
Cleaning supplies	12,957	14,920
Miscellaneous	<u>47,707</u>	<u>65,940</u>
	<u>267,575</u>	<u>683,492</u>
	<u>\$14,470,141</u>	<u>\$15,445,634</u>

The accompanying notes are an integral part of these statements.

Minnesota State Senate

NOTES TO FINANCIAL STATEMENTS

June 30, 1994 and 1993

NOTE A - FINANCIAL REPORTING ENTITY

The Minnesota State Senate (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 State's 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.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

1. 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.

2. 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 (see note D).

Minnesota State Senate

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 1994 and 1993

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

3. Disbursement of Funds

Senate funds are disbursed by the State's Department of Finance.

4. 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 appropriated unless supplemental appropriations are approved by the State Commissioner of Finance or unspent appropriations carried forward from previous years are available.

5. 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).

6. 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.

Minnesota State Senate

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 1994 and 1993

NOTE C - 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.
- (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 \$434,224 in 1994 and \$431,207 in 1993.

NOTE D - COMPENSATED ABSENCES

Generally accepted governmental accounting principals specify that the liability for unpaid vacation and sick leave to which employees are entitled is to be reported in the General Long-Term Debt Account Group if it is not to be liquidated with expendable available financial resources. 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>1994</u>	<u>1993</u>
Vacation	\$ 566,647	\$ 544,079
Sick leave	<u>588,178</u>	<u>544,103</u>
	<u>\$1,154,825</u>	<u>\$1,088,182</u>

Minnesota State Senate

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 1994 and 1993

NOTE E - RECONCILIATION OF SENATE STATEMENTS TO DEPARTMENT OF FINANCE BUDGETARY REPORTS

The accompanying statements 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 fiscal year 1993	\$ 1,983,990	\$ 94,297	\$ 2,078,287
Appropriation	14,582,316	-	14,582,316
Other receipts	58,334	-	58,334
Expenditures	<u>(15,414,205)</u>	<u>(31,429)</u>	<u>(15,445,634)</u>
Appropriation carryforward to fiscal year 1994	1,210,435	62,868	1,273,303
Appropriation	14,736,000	-	14,736,000
Other receipts	60,257	-	60,257
Expenditures	<u>(14,438,397)</u>	<u>(31,744)</u>	<u>(14,470,141)</u>
Appropriation carryforward, end of fiscal year 1994	<u>\$ 1,568,295</u>	<u>\$ 31,124</u>	<u>\$ 1,599,419</u>

NOTE F - RECLASSIFICATIONS

Certain reclassifications have been made to the 1993 financial statements to conform with the 1994 presentation.

Minnesota State Senate
COMPARATIVE SCHEDULE OF BUDGETARY EXPENDITURES

For the years ended June 30,
(unaudited)

<u>Description</u>	<u>1994</u>	<u>1993</u>	<u>1992</u>	<u>1991</u>
Salaries and benefits:				
Salaries - senators	\$ 1,908,165	\$ 1,894,114	\$ 1,905,845	\$ 1,854,151
Salaries - staff	7,614,784	7,929,095	7,929,957	7,985,285
MSRS and FICA, and other benefits	1,018,601	1,039,654	1,063,946	1,006,821
Insurance - staff	627,945	566,668	591,770	543,847
Insurance - senators	258,415	243,167	247,352	229,179
Unemployment compensation	29,184	39,825	41,609	15,901
Workers compensation	<u>11,770</u>	<u>18,348</u>	<u>11,869</u>	<u>7,574</u>
	11,468,864	11,730,871	11,792,348	11,642,758
Services:				
Rents leases and maintenance	83,082	177,376	63,022	72,996
Employment and publicity advertisement	20,074	18,972	12,873	13,262
Furniture and equipment repairs	11,711	31,015	33,452	35,882
Maintenance agreements	164,559	162,022	184,017	189,255
Printing	742,952	862,243	773,452	811,991
Micrographics	202	2,165	94	134
Consultant expense	59,844	67,855	94,074	135,593
EDP - ISB	11,072	10,528	10,203	16,345
EDP - software	32,935	28,645	17,318	67,062
EDP - development <i>some equip. purchases</i>	<u>191,858</u>	67,615	78,971	203,432
Janitorial	80,949	89,761	83,772	73,783
Dry cleaning/carpet cleaning	8,186	3,030	3,836	13,573
Interns	<u>24,924</u>	<u>43,586</u>	<u>18,811</u>	<u>25,652</u>
	1,432,348	1,564,813	1,373,895	1,658,960
Subsistence:				
Postage	145,250	172,366	175,316	165,465
Telephones	242,679	358,629	254,190	334,450
Delivery service	5,416	5,067	1,706	4,290
Mailing service	3,597	11,864	3,356	5,119
Mileage	177,511	119,942	172,661	118,542
In-state travel/lodging	154,292	161,904	169,266	164,986
Per deim	320,874	463,678	328,668	495,577
Registration	45,901	30,651	51,617	40,603
State vehicle	1,891	424	1,595	744
Out-state travel	131,460	85,286	170,054	158,328
Tuitions/memberships/admissions	<u>40,739</u>	<u>25,218</u>	<u>20,542</u>	<u>17,919</u>
	1,269,610	1,435,029	1,348,971	1,506,023

Minnesota State Senate

COMPARATIVE SCHEDULE OF BUDGETARY EXPENDITURES - CONTINUED

For the years ended June 30,
(unaudited)

<u>Description</u>	<u>1994</u>	<u>1993</u>	<u>1992</u>	<u>1991</u>
Furniture, supplies, equipment and capital outlay:				
Video	\$ 23,236	\$ 99,010	\$ 34,717	\$ 136,802
Photographic	5,408	18,414	7,023	10,703
Furniture and equipment	16,998	39,880	48,204	320,936
Capital outlay	10,938	122,379	128,148	214,582
Office supplies/stationery	103,339	270,060	116,126	285,421
Newspaper and publications	39,880	44,240	40,378	40,247
Water and coolers	7,112	8,649	9,538	10,635
Cleaning supplies	12,957	14,920	13,749	14,780
Miscellaneous	<u>47,707</u>	<u>65,940</u>	<u>42,829</u>	<u>75,337</u>
	<u>267,575</u>	<u>683,492</u>	<u>440,712</u>	<u>1,109,443</u>
	14,438,397	15,414,205	14,955,926	15,917,184
Accrual basis adjustments	<u>31,744</u>	<u>31,429</u>	<u>(306,727)</u>	<u>19,713</u>
	<u>\$14,470,141</u>	<u>\$15,445,634</u>	<u>\$14,649,199</u>	<u>\$15,936,897</u>

OTHER REQUIRED REPORTS

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS ON
THE INTERNAL CONTROL STRUCTURE, BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

Secretary of the Senate
Minnesota State Senate

We have audited the statements of status of appropriations and expenditures of the Minnesota State Senate (Senate) as of and for the year ended June 30, 1994, and have issued our report thereon dated October 21, 1994.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

In planning and performing our audit of the statements of status of appropriations and expenditures of the Senate for the year ended June 30, 1994, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the statements of status of appropriations and expenditures and not to provide assurance on the internal control structure.

The management of the Senate is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure 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 internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures in the following categories: appropriations, purchases/disbursements and payroll.

For the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operation that we consider to be material weaknesses as defined above.

However, we noted other matters involving the internal control structure and its operation on that we have reported to management and the Senate in a separate letter dated October 21, 1994.

This report is intended for the information of management and the Minnesota State Senate. However, this report is a matter of public record and its distribution is not limited.

A handwritten signature in cursive script that reads "Grant Thornton".

Minneapolis, Minnesota
October 21, 1994

Grant Thornton 

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**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS ON
COMPLIANCE WITH LAWS, REGULATIONS, CONTRACTS, AND GRANTS,
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Secretary of the Senate
Minnesota State Senate

We have audited the statements of status of appropriations and expenditures of the Minnesota State Senate (Senate) as of and for the year ended June 30, 1994, and have issued our report thereon dated October 21, 1994.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws, regulations, contracts and grants applicable to the Senate is the responsibility of the Senate's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Senate's compliance with certain provisions of laws, regulations, contracts and grants. However, our objective was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests indicate that, with respect to the items tested, the Minnesota State Senate complied, in all material respects, with the provisions referred to in the preceding paragraph, except as follows:

LONG DISTANCE TELEPHONE BILL APPROVAL

In fiscal year 1994, a law was implemented which requires each Senator to sign his or her monthly long distance bills as evidence of approval. During our review of phone bills for the

year ended June 30, 1994 and the log kept of those bills distributed to the Senators and their assistants for approval, we identified the following:

- Forty-five monthly long distance bills (of 24 Senators) provided to Senators were not returned; therefore, proper authorization of these bills had not occurred.
- Thirty-nine instances (which included 5 Senators) were noted where the Senator's assistants authorized the long distance bills instead of the respective Senator.

We recommend all Senators begin complying with the approval requirements on a timely basis. We suggest additional inquiry be made to determine if procedures need to be revised or clarified to facilitate full compliance.

With respect to items not tested, nothing came to our attention that caused us to believe that the Senate had not complied, in all material respects, with the provisions referred to in the third paragraph of this report.

This report is intended for the information of management and the Minnesota State Senate. However, this report is a matter of public record and its distribution is not limited.



Minneapolis, Minnesota
October 21, 1994

October 21, 1994

Secretary of the Senate
Minnesota State Senate

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Ladies and Gentlemen:

Professional standards require that we advise you of the following matters relating to our recently concluded audit on which we reported under date of October 21, 1994.

Our Responsibility Under Generally Accepted Auditing Standards and *Government Auditing Standards*

As stated in our engagement letter dated November 30, 1993, our responsibility, as prescribed by generally accepted auditing standards promulgated by the American Institute of Certified Public Accountants and *Government Auditing Standards* issued by the Comptroller General of the United States, is to plan and perform our audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit in accordance with generally accepted auditing standards and *Government Auditing Standards* does not provide absolute assurance or guarantee the accuracy of the financial statements and is subject to the inherent risk that errors, irregularities, or noncompliance with the provisions of laws, regulations, contracts and grants, if existing, have not been detected. Such standards require that we obtain a sufficient understanding of Minnesota State Senate's internal control structure to plan the audit. However, such understanding and any tests performed with respect to such internal controls, or as to compliance with laws, regulations, contracts and grants, were for the purpose of expressing our opinion on Minnesota State Senate's financial statements and not to opine or provide any assurance concerning such internal control structure or compliance.

Initial Selection of Significant Accounting Policies

There have been no initial selections of, or changes in significant accounting policies of the Senate in the past fiscal year.

Significant Audit Adjustments

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. The definition includes adjustments

which were not recorded by the Senate because they are not material to the current financial statements but might be potentially material to future financial statements. As part of our audit procedures, we made adjustments to the Senate's budgetary-based records for purposes of presenting statements in accordance with generally accepted accounting principles for governmental entities. These adjustments are summarized in note E to the financial statements.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter which could be significant to the Senate's financial statements or the audit report. We are pleased to report that no such disagreements arose during the course of our audit.

Major Issues Discussed with Management Prior to our Retention

We discussed no major issues with management of the Senate relating to accounting policies or treatment of a particular transaction prior to our being retained as auditors for the current fiscal year.

Consultation With Other Accountants

Management has informed us that they have not consulted with other accountants during the year about auditing and accounting matters.

* * * * *

We will be pleased to meet with you at your convenience should you desire further information concerning these matters.

This letter is intended for the information of management and the Minnesota State Senate. However, this report is a matter of public record and its distribution is not limited.

Very truly yours,



MEMORANDUM OF ADVISORY COMMENTS

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Secretary of the Senate
Minnesota State Senate

In connection with our audit of the financial statements of the Minnesota State Senate as of June 30, 1994, we noted certain matters that we believe you should consider. Our observations were formed as a by-product of our audit procedures, which did not include a comprehensive review for the purpose of submitting detailed recommendations.

The accompanying comments summarize our comments and suggestions. We have previously discussed our comments and suggestions with management personnel of the Senate and would be pleased to discuss them further.



Minneapolis, Minnesota
October 21, 1994

CURRENT YEAR COMMENTS

EMPLOYEE TIME CARDS

Per discussion with individuals in the Fiscal Services Department, we understand that employee time cards are not always received on a timely basis. We understand that, before processing payroll, fiscal services staff reviews the adequacy of accrued leave to cover the maximum possible usage for any employee who does not submit a time card when due. This procedure mitigates the risk of overpaying an individual, since vacation or sick leave accrual records can be subsequently adjusted.

We suggest procedures be implemented requiring employees to submit time cards on a timely basis. If the problem becomes extensive or persists, the Senate should consider implementing a one week lag between the end of the pay period and pay dates for all staff. Payroll would not be processed for those who do not submit time reports when due.

FORMAL NEW HIRE AND TERMINATED EMPLOYEE DOCUMENTATION

The Fiscal Services Department is often notified of personnel changes through the receipt of an informal note identifying the employee's name, hire date, position and pay rate. Fiscal Services becomes aware of terminations through notes received or inquiries made when time reports are not submitted. We believe controls could be strengthened and communication with the Fiscal Services Department could be improved with respect to the personnel transactions.

We recommend that a formal approval document be utilized in relation to the hiring and termination of employees. These documents should be appropriately authorized and maintained in the employee's personnel file. Standardized forms and procedures should be used to communicate authorized personnel transactions to the Fiscal Services Department, on a routine basis. We understand that the Senate has created a new human resources position. It may be appropriate for this person to review procedures in these areas.

STATUS OF PRIOR YEAR COMMENTS

MANAGEMENT BUDGETS

We suggested the Senate consider adopting management budgets at the department, committee and member levels. Periodic budget status reports should be provided to those responsible for the budgets.

Status:

We were informed that the Senate Committee on Rules and Administration will continue to budget on a Senate-wide basis for Senator and staff salaries, per diem, printing, travel, stationery, postage, etc. Standing committees adopt budget/workplans for the interim between sessions.

FISCAL SERVICES DEPARTMENT DATA PROCESSING

Vendor and payroll checks and registers are prepared in batches using the IBM System 36 computer. However, information for the payroll trailer checks must be manually calculated and separately posted to the manual records. Additionally, the staff maintains a separate manual ledger to provide more accurate and timely information than is available from the computer. Separate manual records are also maintained for vacation and sick leave.

We suggested the Senate review the data processing function in the Fiscal Services Department. However, there were broader issues that we thought should be reviewed as such:

- Consider the continuing availability of maintenance and support for hardware and software;
- Consider whether greater use of computers or new data processing could improve staff efficiency and effectiveness;
- Consider the ability of the data processing system and procedures to meet the demands for timely, reliable and relevant financial information;
- At a minimum, make sure there are specific plans to deal with the possibility of system failure or destruction.

Status:

We were informed that the staff have researched PC systems and considered the state-wide accounting system. We understand that no further consideration will be given to this matter until the state-wide accounting system project has been completed. Implementation of this project is scheduled for July 1995.

WAGE AND TAX STATEMENTS (IRS W-2 FORMS)

We recommended and noted the following:

- That we have not found a basis for treating any per diems paid to senators living within 50 miles of the State Capitol as nontaxable.
- That senators provide the Senate with annual written statements of their intentions to make a 162(h) election if per diems are to be excluded from W-2 reporting. Senators should also confirm that the days paid qualify as Legislative days under Section 162(h).

- If an employer pays a per diem allowance instead of reimbursing actual expenses, then any additional payment with respect to these expenses should be reported on the employee's W-2. Since the federal per diem rate used to exclude the per diem payments from reported income includes lodging, any additional lodging reimbursements should be reported on the W-2 form as income.

Overall, we recommended that the Senate review and document compliance with Internal Revenue Service wage and tax reporting requirements.

Status:

The Senate has been reviewing this matter and consulting with Grant Thornton's tax department. We were informed that a number of Senators have submitted Section 162h election forms for 1994, and that changes to the Senate's policies and procedures relative to these matters will be made fully effective January 1, 1995.

EXPENSE REIMBURSEMENT DOCUMENTATION

Reimbursement for apartment costs, up to \$500 per month, and for interim telephone expenses, up to \$75 per month, could be claimed by signing an administrative form. No other documentation to substantiate actual costs has been required to be submitted. We suggested the Senate require receipts or invoices be attached to these claims when submitted for payment.

Status:

We were informed that this matter has been reviewed in conjunction with the wage and tax statement issues, and any changes resulting from this review will be effective January 1, 1995.

TELEPHONE ACCESS

All Senators and authorized Senate staff use the same access code to make calls on the incoming WATS system. It is extremely difficult, if not impossible, to determine who may be using, or misusing the telephone system. We recommended that the Senate consider assigning individual access codes to any one authorized to use the incoming WATS lines.

More than one person may have legitimate access to a particular telephone with the Senate and more than one telephone may have access to a particular telephone line. Greater accountability could be achieved by requiring the use of individual access codes for all long distance calls placed on Senate telephones.

Status:

We were informed that the following have occurred:

- Each Senator has been given a personalized calling card which allows him or her access on the WATS line.

- The Senate has implemented the law requiring Senators to authorize the accuracy of their respective monthly incoming WATS bill as well as their long distance calls from the Senate. (See current year comment on this matter.)

POSTAGE

We recommended that a computer be used to track postage meter usage and that the postage meter be used for all mailings.

Status:

We understand that Senators have the option of receiving stamp allotments or credit on the postage meter and that Senators also have an option to receive stamps in installments rather than all at once. Currently, both a computer and a manual card system are being used in conjunction with the postage meter until the staff are confident the computer system is working accurately.

DEPOSITS

We recommended adopting a formal policy that deposits be made as soon as the total undeposited amount exceeds a certain threshold.

Status:

We were informed that deposits are now made as soon as the total undeposited amount exceeds \$250.

COMPETITIVE PRICING

As part of the new ordering system, we recommended adoption of a formal policy requiring competitive quotes or bids and consideration of economic order quantities for highly used items.

Status:

We were informed that **no formal written policy has been adopted but bids are required to be obtained for standard supply items.** Each December, a bid process will occur for standard supply items to be purchased for the next calendar year. In addition, a computerized inventory order system has been implemented which enables monitoring of inventory levels on hand as well as determination of when the next order should be placed.

REIMBURSEMENT FORMS AUTHORIZATION

We noted that the blank reimbursement forms are pre-stamped with the Fiscal Services authorization signature. Since this signature is evidence of review and approval, we recommended that the blank forms should not be pre-signed.

Status:

We noted, per review of expense reports, that this recommendation has been adopted.

FIXED ASSET RECORDS

During our prior year audit, we were informed that the Senate's fixed asset records were not updated for an entire year. We recommended that these records be updated and maintained since they provide a record of the physical existence and location of State assets.

Status:

A computerized bar code scanning inventory system was acquired in fiscal year 1994 but was not fully implemented due to vendor delays.

COMMUNICATION OF PERSONNEL TRANSACTIONS

It is important that the Fiscal Service Department be notified on a routine basis when arrangements are made with other agencies or commissions to share the cost, or the services, of a Senate employee. We recommended that efforts be made to improve the communications regarding such arrangements.

Status:

We were informed that the loaning of personnel is done so infrequently that no formal policy was enacted but attempts at better communication will be encouraged.

PHYSICAL SECURITY OF BLANK CHECKS

We noted that blank checks were kept in an unlocked cabinet in the Fiscal Services Department. We recommended that security be increased by keeping the checks in a locked cabinet or file at all times.

Status:

We were informed that all blank checks are now locked in a cabinet at all times.

PATRICK E. FLAHAVEN
Secretary of the Senate

Senate

State of Minnesota

December 13, 1994

Grant Thornton
200 South Sixth Street
Suite 500
Minneapolis, MN 55402

Ladies and Gentlemen:

Our response to the comments contained in the FY 94 Audit are described below.

LONG DISTANCE TELEPHONE BILL APPROVAL

Each month a letter is sent to each Senator asking that the current month's bill and any prior bills be signed and returned. Follow-up phone calls are made if signed bills are not returned.

As of December 13th, twenty-five monthly long distance bills (of 12 Senators) provided to Senators were not returned; therefore, proper authorization of these bills has not occurred.

Thirty-nine instances (which included five Senators) were noted where the Senators' assistants authorized the long distance bills instead of the respective Senator.

EMPLOYEE TIME CARDS

For a long time Senate employees were very careful to get time sheets in, however, now some are not complying with the requirement.

No salary payments have been made which had to be recovered because an employee did not have sufficient annual leave or sick leave to cover an absence. If an employee does not have sufficient leave to cover an absence, no check is issued or a reduced check is issued.

FORMAL NEW HIRE AND TERMINATED EMPLOYEE DOCUMENTATION

When an employee is hired, the Personnel Officer sends a written note stating the employee's name, classification, hire date and pay rate to the Fiscal Services Department. When a permanent employee terminates, a Leave or Separation Notice is filled out by the Personnel Officer and given to the Fiscal Services

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Department. This form shows the termination date, last day of work, reason for the termination and the present rate of pay. The Fiscal Services Department fills in the amount of vacation leave paid, and severance pay, if any, and the date of the last check. This form is then returned to the Personnel Officer for insertion in the respective employee's personnel file.

These procedures will be continued by the new Human Resources Director. Information on all permanent and temporary newly hired employees and employees leaving the Minnesota Senate will be documented on revised "Human Resource Action Form", "Termination/Hire Report" and a letter of hire. These new documents will be in effect December 20, 1994.

Sincerely,



Patrick E. Flahaven
Secretary of the Senate

PEF:jm