

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

MINNESOTA STATE SENATE

June 30, 1995 and 1994

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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, 1995 and 1994. 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 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. 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, 1995 and 1994 in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 27, 1995 on our consideration of the Senate's internal control structure and a report dated October 27, 1995 on its compliance with laws and regulations.

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 27, 1995



Minnesota State Senate

STATEMENTS OF STATUS OF APPROPRIATIONS

For the years ended June 30, 1995 and 1994

	<u>1995</u>	<u>1994</u>
Appropriation carryforward, beginning of year	\$ 1,599,419	\$ 1,273,303
Appropriation for the year:		
Original appropriation	15,787,000	14,736,000
Reduction	(161,500)	-
Statewide Systems Project	<u>100,450</u>	<u>-</u>
	15,725,950	14,736,000
Other receipts for the year	68,434	60,257
Other financing source – proceeds from installment purchase contracts	535,967	-
Expenditures for the year	<u>(16,690,903)</u>	<u>(14,470,141)</u>
Appropriation carryforward, end of year	<u>\$ 1,238,867</u>	<u>\$ 1,599,419</u>

The accompanying notes are an integral part of these statements.

Minnesota State Senate

STATEMENTS OF EXPENDITURES

For the years ended June 30,

	<u>1995</u>	<u>1994</u>
Salaries and Benefits:		
Salaries – senators	\$ 1,952,045	\$ 1,908,165
Salaries – staff	8,156,735	7,646,528
MSRS and FICA, and other benefits	1,076,739	1,018,601
Insurance – staff	665,970	627,945
Insurance – senators	262,027	258,415
Unemployment compensation	24,146	29,184
Workers' compensation	<u>13,842</u>	<u>11,770</u>
	12,151,504	11,500,608
Services:		
Rents, leases and maintenance (includes copy equipment)	129,434	83,082
Employment and publicity advertisement	19,205	20,074
Furniture and maintenance repairs	23,988	11,711
Maintenance agreements	119,689	164,559
Printing	478,747	742,952
Micrographics	227	202
Consultant expense	100,941	59,844
EDP-ISB	14,949	11,072
EDP-software	53,622	32,935
EDP-development (includes equipment)	931,436	191,858
Janitorial	66,179	80,949
Dry cleaning/carpet cleaning	4,268	8,186
Interns	<u>41,470</u>	<u>24,924</u>
	1,984,155	1,432,348
Subsistence:		
Postage	170,685	145,250
Telephones	219,578	242,679
Delivery service	5,762	5,416
Mailing service	16,800	3,597
Mileage	158,376	177,511
In-state travel/lodging	170,738	154,292
Per diem	504,162	320,874
Registration	47,646	45,901
State vehicle	336	1,891
Out-state travel	88,973	131,460
Tuition/memberships/admissions	<u>41,998</u>	<u>40,739</u>
	1,425,054	1,269,610

Minnesota State Senate

STATEMENTS OF EXPENDITURES – CONTINUED

For the years ended June 30,

	<u>1995</u>	<u>1994</u>
Furniture, Supplies, Equipment and Capital Outlay:		
Video	\$ 67,120	\$ 23,236
Photographic	7,807	5,408
Furniture and equipment	149,532	16,998
Capital outlay	8,071	10,938
Office supplies/stationery	247,463	103,339
Newspaper and publications	43,726	39,880
Water and coolers	14,901	7,112
Cleaning supplies	11,908	12,957
Miscellaneous	<u>43,695</u>	<u>47,707</u>
	594,223	267,575
Equipment purchased under installment purchase contracts	<u>535,967</u>	<u>-</u>
	<u>\$16,690,903</u>	<u>\$14,470,141</u>

The accompanying notes are an integral part of these statements.

Minnesota State Senate

NOTES TO FINANCIAL STATEMENTS

June 30, 1995 and 1994

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 the 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. Exceptions to this general rule are for accumulated unpaid vacation and sick leave, which is not recognized until paid (see note D), and long-term debt (see note F) which is recognized when due.

Minnesota State Senate

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 1995 and 1994

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 Rules and Administration Committee 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 up to a maximum of 260 hours 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, 1995 and 1994

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 4.06% of their salaries and the Senate contributes 6% of salaries to the plan. The Senate's contribution was \$444,344 in 1995 and \$434,224 in 1994.

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's liability is reported in the State's General Long-Term Debt Account Group, rather than in the Senate's financial statements which represents a part of the State's General Fund. The Senate recognizes expenses for compensated absences as they are paid.

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

	<u>1995</u>	<u>1994</u>
Vacation	\$ 609,519	\$ 566,647
Sick leave	<u>622,892</u>	<u>588,178</u>
	<u>\$1,232,411</u>	<u>\$1,154,825</u>

Minnesota State Senate

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 1995 and 1994

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. For example, generally accepted accounting principles require general fixed assets purchased with an installment contract be recorded as an expenditure in the year of purchase. The present value of the contract payment is recorded as an “other financing source.” 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 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 to fiscal year 1995	1,568,295	31,124	1,599,419
Appropriation – net	15,725,950	-	15,725,950
Other receipts	68,434	-	68,434
Other financing source – proceeds from installment purchase contracts	-	535,967	535,967
Expenditures	<u>(16,123,812)</u>	<u>(567,091)</u>	<u>(16,690,903)</u>
Appropriation carryforward, end of fiscal year 1995	<u>\$ 1,238,867</u>	<u>\$ -</u>	<u>\$ 1,238,867</u>

Under statutory provisions effective July 1, 1995, the Senate’s appropriation carryforward may be used only for nonrecurring expenditures on investments that enhance efficiency or improve effectiveness; special session, interim, public hearings, and other public outreach efforts; and severance costs of involuntary terminations.

Minnesota State Senate

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 1995 and 1994

NOTE F – COMMITMENTS

In December 1994, the Senate entered into installment purchase contracts to purchase equipment. The Senate does not record long term liabilities but recognizes installment payments when due. Such liabilities would be reported in the State's General Long-Term Debt Account Group. Future payments required under these contracts, including maintenance, are as follows:

<u>Year ended June 30,</u>	
1996	\$130,409
1997	130,409
1998	130,409
1999	<u>65,205</u>
	<u>\$586,841</u>

Minnesota State Senate
COMPARATIVE SCHEDULE OF BUDGETARY EXPENDITURES
For the years ended June 30,
(Unaudited)

Description	1995	1994	1993	1992
Salaries and Benefits:				
Salaries – senators	\$ 1,952,045	\$ 1,908,165	\$ 1,894,114	\$ 1,905,845
Salaries – staff	8,187,859	7,614,784	7,929,095	7,929,957
MSRS and FICA, and other benefits	1,076,739	1,018,601	1,039,654	1,063,946
Insurance – staff	665,970	627,945	566,668	591,770
Insurance – senators	262,027	258,415	243,167	247,352
Unemployment compensation	24,146	29,184	39,825	41,609
Workers compensation	<u>13,842</u>	<u>11,770</u>	<u>18,348</u>	<u>11,869</u>
	12,182,628	11,468,864	11,730,871	11,792,348
Services:				
Rents, leases, and maintenance (includes copy equipment)	129,434	83,082	177,376	63,022
Employment and publicity advertisement	19,205	20,074	18,972	12,873
Furniture and equipment repairs	23,988	11,711	31,015	33,452
Maintenance agreements	119,689	164,559	162,022	184,017
Printing	478,747	742,952	862,243	773,452
Micrographics	227	202	2,165	94
Consultant expense	100,941	59,844	67,855	94,074
EDP – ISB	14,949	11,072	10,528	10,203
EDP – software	53,622	32,935	28,645	17,318
EDP – development (includes equipment)	931,436	191,858	67,615	78,971
Janitorial	66,179	80,949	89,761	83,772
Dry cleaning/carpet cleaning	4,268	8,186	3,030	3,836
Interns	<u>41,470</u>	<u>24,924</u>	<u>43,586</u>	<u>18,811</u>
	1,984,155	1,432,348	1,564,813	1,373,895
Subsistence:				
Postage	170,685	145,250	172,366	175,316
Telephones	219,578	242,679	358,629	254,190
Delivery service	5,762	5,416	5,067	1,706
Mailing service	16,800	3,597	11,864	3,356
Mileage	158,376	177,511	119,942	172,661
In-state travel/lodging	170,738	154,292	161,904	169,266
Per diem	504,162	320,874	463,678	328,668
Registration	47,646	45,901	30,651	51,617
State vehicle	336	1,891	424	1,595
Out-state travel	88,973	131,460	85,286	170,054
Tuitions/memberships/admissions	<u>41,998</u>	<u>40,739</u>	<u>25,218</u>	<u>20,542</u>
	1,425,054	1,269,610	1,435,029	1,348,971

Minnesota State Senate

COMPARATIVE SCHEDULE OF BUDGETARY EXPENDITURES – CONTINUED

For the years ended June 30,
(Unaudited)

<u>Description</u>	<u>1995</u>	<u>1994</u>	<u>1993</u>	<u>1992</u>
Furniture, Supplies, Equipment and Capital Outlay:				
Video	\$ 67,120	\$ 23,236	\$ 99,010	\$ 34,717
Photographic	7,807	5,408	18,414	7,023
Furniture and equipment	149,532	16,998	39,880	48,204
Capital outlay	8,071	10,938	122,379	128,148
Office supplies/stationery	247,463	103,339	270,060	116,126
Newspaper and publications	43,726	39,880	44,240	40,378
Water and coolers	14,901	7,112	8,649	9,538
Cleaning supplies	11,908	12,957	14,920	13,749
Miscellaneous	<u>43,695</u>	<u>47,707</u>	<u>65,940</u>	<u>42,829</u>
	594,223	267,575	683,492	440,712
Equipment purchased under installment purchase contracts	<u>535,967</u>	<u>-</u>	<u>-</u>	<u>-</u>
	16,722,027	14,438,397	15,414,205	14,955,926
Accrual basis adjustments	<u>(31,124)</u>	<u>31,744</u>	<u>31,429</u>	<u>(306,727)</u>
	<u>\$16,690,903</u>	<u>\$14,470,141</u>	<u>\$15,445,634</u>	<u>\$14,649,199</u>

OTHER REQUIRED REPORTS

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, 1995, and have issued our report thereon dated October 27, 1995.

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, 1995, 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.

In planning and performing our audit of the general-purpose financial statements of the Senate for the year ended June 30, 1995, we obtained an understanding of the internal control structure. With respect to the internal control structure, 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 in order to determine our auditing procedures for the purpose of expressing our opinion on the general-purpose financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

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 27, 1995.

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.

Grant Thornton LLP

Minneapolis, Minnesota
October 27, 1995



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, 1995, and have issued our report thereon dated October 27, 1995.

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 disclosed the following instance of noncompliance that is required to be reported herein under *Government Auditing Standards*.

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 telephone bills as evidence of approval. During our review of telephone bills for the year ended June 30, 1995 and the log kept of those bills distributed to the senators and their assistants for approval, we identified one instance in which a telephone bill had not been approved in a timely manner. However, this bill was approved prior to the completion of the audit.

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 black ink that reads "Grant Thornton LLP". The signature is written in a cursive, flowing style.

Minneapolis, Minnesota
October 27, 1995

October 27, 1995

Secretary of the Senate
Minnesota State Senate

Grant Thornton 
GRANT THORNTON LLP Accountants and
Management Consultants
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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 27, 1995.

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

As stated in our engagement letter dated July 11, 1995, 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. We could, however, as a separate engagement, be engaged to perform agreed-upon procedures or examine and report on management's written assertion about that internal control structure or that management complied with specified laws and regulations. Such engagements would be conducted in accordance with AICPA standards for attestation engagements.

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,

A handwritten signature in black ink that reads "Brent Thornton" followed by a stylized monogram or initials.

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, 1995, 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.

Grant Thornton LLP

Minneapolis, Minnesota
October 27, 1995

CURRENT YEAR COMMENTS

SEVERANCE PAY CALCULATION

Voluntary terminations receive severance pay which includes two percent of unused sick leave for each year of service, up to a maximum of forty percent. If an employee terminates during the year, a pro-ration of the two percent is used for that year. During our testing, we noted that supporting documentation was not sufficient to allow recalculation of this pro-ration. We recommend appropriate documentation be retained for each calculation.

STATUS OF PRIOR YEAR COMMENTS

WAGE AND TAX STATEMENTS (IRS W-2 FORMS)

Status:

The Senate Rules and Administration Committee approved a policy, effective January 1, 1995 for calendar year 1995, regarding the tax treatment of per diems, lodging and telephone expense reimbursements, in order to comply with Internal Revenue Service requirements. In summary, this policy includes the following:

- For members living within 50 miles of the capitol, interim per diems will be treated as wages – they will be subject to withholdings and will be included as wages on the W-2 Forms.
- Members living more than 50 miles from the capitol may elect, annually, to treat their district residence as their tax home under the Internal Revenue Code 162(h). If this election is made, per diem reimbursements may be treated as nontaxable. The member must file a notice of intent to make such an election.
- The limit for nontaxable per diem payments will be the federal rate of \$98. The limit is a yearly limit, computed by multiplying the number of “legislative days” by the federal rate. “Legislative days” includes days on which the legislature was in session (days on which the legislature was adjourned for no more than four consecutive days). On the interim expense reimbursement request, senators are asked to identify both the number of “legislative days” on which they met as a member of a legislative committee and the number of “nonlegislative days” for which they are requesting per diems.
- In order for expense reimbursements to be treated as nontaxable income, they must be made under an accountable plan. An accountable plan requires an employee to substantiate the expense to their employer; therefore, all monthly lodging reimbursement claims must be substantiated by a receipt for the amounts paid that month, a copy of the lease agreement or other suitable documentation.

- Telephone expense reimbursements will be recorded as wages and tax withheld from them unless the reimbursement request is accompanied by appropriate documentation.

During our current year testing, we noted that the policy was being implemented and that certain points were being clarified to ensure compliance by calendar year-end 1995. In light of the new policy, we would like to emphasize the importance of properly communicating the necessary information summarized above.

Since an accountable plan requires an employee to substantiate all expenses, we recommend that a policy be implemented requiring each senator to provide adequate substantiation for in-district mileage on his/her expense reimbursement requests.

EMPLOYEE TIME CARDS

We suggested procedures be implemented requiring employees to submit time cards on a timely basis and consider a one-week lag between the end of the pay period and pay dates.

Status:

We were informed that late submission of time cards occurs too infrequently for a change in procedures to be required. 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

We recommended 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.

Status:

With respect to the hiring and termination of employees, standardized forms have been developed and implemented which provide adequate communication of authorized personnel transactions. These documents are authorized and maintained in the employee's personnel file.

FISCAL SERVICES DEPARTMENT DATA PROCESSING

We suggested the Senate review the data processing function in the Fiscal Services Department.

Status:

We were informed that a decision was made to replace the System 36 with an IBM AS 400. Implementation is expected in fiscal year 1996.

FIXED ASSET RECORDS

Our prior year audits have indicated that the Senate's fixed asset records were not being updated in a timely manner. We recommended these records be updated and maintained since they provide a record of the physical existence and location of State assets.

Status:

During our current year audit, we were informed that the status of these records has remained unchanged. A computerized bar code scanning inventory system was acquired in fiscal year 1994, but this system has not been fully implemented. With the significant level of fixed asset purchases in fiscal year 1995, we would like to stress the importance of keeping accurate and current records.

COMPETITIVE PRICING

We recommended adopting a formal policy requiring competitive quotes of bids and consideration of economic order quantities for highly used items.

Status:

A bid process is occurring for standard supply items to be purchased; however, we recommend that this process be formalized in writing. Additionally, a computerized inventory order system has been purchased which has the capabilities of monitoring inventory levels as well as determining when the next order should be placed. The economic order quantity (EOQ) program application of this system is not functioning properly; therefore, the EOQ facets of this program were not used in fiscal year 1995.

PATRICK E. FLAHAVEN

Secretary of the Senate

January 12, 1996

Senate

State of Minnesota

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

Ladies and Gentlemen:

Our response to the comments contained in the FY 95 Audit are described below:

CURRENT YEAR COMMENTS:

SEVERANCE PAY CALCULATION

- We have reviewed this procedure. Detailed supporting documentation will be retained in any future separation calculations.

STATUS OF PRIOR YEAR COMMENTS:

WAGE AND TAX STATEMENTS (IRS W-2 FORMS)

- We have been and will continue to communicate the information referred to in the recommendation.
- The question of substantiation for in-district mileage will be considered by the Committee on Rules and Administration.

FIXED ASSET RECORDS

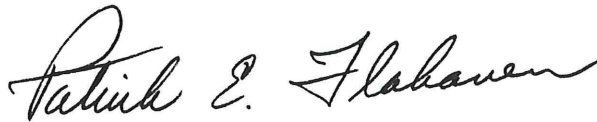
- We acquired a computerized bar code scanning inventory system, however, there were problems with software development that were not resolved until the end of the 1994 Interim. During November and December of 1994, part of ground floor in the Capitol was completed. During the interim of 1995 we had several vacancies in the Sergeants Department which interfered with the fixed asset inventory. We will begin updating the inventory as soon as the 1996 Session adjourns.



COMPETITIVE PRICING

- We have written a policy to reflect the actual practice; it will be reviewed with Grant Thornton during FY '96.
- The economic order quantity program application is now being used; it also will be reviewed with Grant Thornton during FY '96.

Sincerely,



Patrick E. Flahaven
Secretary of the Senate

PF/mc