

LEGISLATIVE REFERENCE LIBRARY



3 0307 00020 3557

**Financial Statements and Report of
Independent Certified Public Accountants**

Minnesota State Senate

June 30, 2001 and 2000

Grant Thornton 

JK
6176
.F56
2000/
2001

**Financial Statements and Report of
Independent Certified Public Accountants**

Minnesota State Senate

June 30, 2001 and 2000

CONTENTS

| | <u>Page</u> |
|--|-------------|
| I. FINANCIAL SECTION | |
| REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS..... | 3 |
| FINANCIAL STATEMENTS | |
| STATEMENTS OF STATUS OF APPROPRIATIONS | 5 |
| STATEMENTS OF EXPENDITURES..... | 6 |
| NOTES TO FINANCIAL STATEMENTS..... | 8 |
| II. STATISTICAL INFORMATION (UNAUDITED) | |
| COMPARATIVE SCHEDULE OF BUDGETARY EXPENDITURES | 15 |
| III. OTHER REQUIRED REPORTS | |
| REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i> | 18 |
| OTHER REQUIRED COMMUNICATIONS..... | 20 |
| UNCORRECTED FINANCIAL STATEMENT MISSTATEMENT..... | 22 |
| MEMORANDUM OF ADVISORY COMMENTS..... | 23 |

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, 2001 and 2000. 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 auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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 provide 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 attributed 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, 2001 and 2000 in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated February 5, 2002 on our consideration of the Senate's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of, and should be read in conjunction with, our report on the financial statements.

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

A handwritten signature in cursive script, appearing to read "Grant Thornton" followed by a flourish.

Minneapolis, Minnesota
February 5, 2002

Minnesota State Senate

STATEMENTS OF STATUS OF APPROPRIATIONS

Years ended June 30,

| | <u>2001</u> | <u>2000</u> |
|---|---------------------|---------------------|
| Appropriation carryforward, beginning of year | \$ 1,129,993 | \$ 1,848,034 |
| Appropriation for the year: | | |
| Original appropriation | 20,523,000 | 19,138,100 |
| Other receipts for the year | <u>29,361</u> | <u>15,571</u> |
| Total appropriation and other receipts | 20,552,361 | 19,153,671 |
| Expenditures for the year | <u>(20,145,368)</u> | <u>(19,871,712)</u> |
| Appropriation carryforward, end of year | | |
| Reserved | 1,536,986 | 814,631 |
| Unreserved | <u>-</u> | <u>315,362</u> |
| | <u>\$ 1,536,986</u> | <u>\$ 1,129,993</u> |

The accompanying notes are an integral part of these statements.

Minnesota State Senate

STATEMENTS OF EXPENDITURES

Years ended June 30,

| | <u>2001</u> | <u>2000</u> |
|---|----------------|---------------|
| Salaries and Benefits: | | |
| Salaries – senators | \$ 2,122,106 | \$ 2,111,546 |
| Salaries – staff | 11,185,229 | 10,574,301 |
| MSRS and FICA, and other benefits | 1,576,281 | 1,452,102 |
| Insurance – staff | 1,220,427 | 1,044,339 |
| Insurance – senators | 450,861 | 337,763 |
| Unemployment compensation | 24,848 | 14,233 |
| Workers' compensation | <u>30,451</u> | <u>23,792</u> |
| | 16,610,203 | 15,558,076 |
| Services: | | |
| Rents, leases and maintenance (includes copy equipment) | 176,545 | 196,403 |
| Employment and publicity advertisement | 40,626 | 41,132 |
| Furniture and maintenance repairs | 62,147 | 51,390 |
| Maintenance agreements | 215,112 | 155,658 |
| Printing | 307,435 | 181,443 |
| Micrographics | 2,431 | 139 |
| Consultant expense | 59,431 | 46,347 |
| EDP-ISB | 20,469 | 24,413 |
| EDP-software | 41,021 | 35,198 |
| EDP-development (includes equipment) | 170,923 | 567,592 |
| Dry cleaning/carpet cleaning | 662 | 891 |
| Interns | <u>32,869</u> | <u>27,125</u> |
| | 1,129,671 | 1,327,731 |
| Subsistence: | | |
| Postage | 171,697 | 129,558 |
| Telephones | 321,132 | 286,648 |
| Delivery service | 1,168 | 1,050 |
| Mailing service | 11,189 | 8,754 |
| Mileage | 120,685 | 147,467 |
| In-state travel/lodging | 249,849 | 215,777 |
| Per diem | 677,913 | 456,768 |
| Registration | 85,546 | 47,417 |
| State vehicle | 920 | 2,353 |
| Out-state travel | 137,691 | 129,398 |
| Tuitions/memberships/admissions | <u>106,883</u> | <u>39,291</u> |
| | 1,884,673 | 1,464,481 |

Minnesota State Senate

STATEMENTS OF EXPENDITURES – CONTINUED

Years ended June 30,

| | <u>2001</u> | <u>2000</u> |
|--|---------------------|---------------------|
| Furniture, Supplies, Equipment and Capital Outlay: | | |
| Video | \$ 81,687 | \$ 1,178,978 |
| Photographic | 37,420 | 34,330 |
| Furniture and equipment | 68,604 | 36,246 |
| Capital outlay | 29,888 | 11,777 |
| Office supplies/stationery | 175,196 | 153,213 |
| Newspaper and publications | 57,772 | 46,447 |
| Water and coolers | 20,617 | 15,648 |
| Cleaning supplies | 98 | 1,951 |
| Miscellaneous | <u>49,539</u> | <u>42,834</u> |
| | <u>520,821</u> | <u>1,521,424</u> |
| | <u>\$20,145,368</u> | <u>\$19,871,712</u> |

The accompanying notes are an integral part of these statements.

Minnesota State Senate

NOTES TO FINANCIAL STATEMENTS

June 30, 2001 and 2000

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 accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of significant accounting policies:

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. Unspent appropriations not carried forward and unencumbered at the end of a biennium shall be returned to the fund from which appropriated (see note E). The Senate's expenditures are classified according to State administrative guidelines.

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.

Minnesota State Senate

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2001 and 2000

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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).

Disbursement of Funds

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

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.

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 275 hours and a percentage of their accumulated sick leave depending upon length of State service and the nature of their severance (voluntary or involuntary).

Minnesota State Senate

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2001 and 2000

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Fixed Assets

Fixed asset acquisitions, consisting of furniture and equipment, 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.

Accounting Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of status of appropriations at the date of the financial statements, the reported amounts of appropriations and other receipts and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE C – RETIREMENT PLANS

- (a) Senators are covered by the Legislative Retirement Plan, a defined benefit plan established and administered in accordance with Minnesota Statutes Chapter 3A, which is administered by the Minnesota State Retirement System (MSRS). 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. In fiscal year 2000, this Plan was amended to serve only existing members. No new participants are allowed. New Senators are covered by the Unclassified Retirement Plan described below.
- (b) All permanent employees and members of the Senate are covered by the Unclassified Retirement Plan, a defined contribution plan, established by Minnesota Statutes Chapter 352D, which is also administered by MSRS. Employees contributed 4.0% of their salaries and the Senate contributed 6% of salaries each year to the plan. The employees' and Senate's contributions were \$465,513 and \$698,270 in 2001, and \$422,860 and \$634,290 in 2000. The Senate made all required contributions.

Minnesota State Senate

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2001 and 2000

NOTE C – RETIREMENT PLANS – Continued

- (c) The permanent employees and members of the Senate are eligible to participate in the Senate's deferred compensation plan as permitted by Minnesota statutes. Eligible employees may elect to have a percentage of their pay contributed to the plan. Contributions are invested in MSRS or qualifying annuity contracts selected by plan participants. Eligible employees can elect to contribute up to 40 hours of vacation pay to the plan or have the Senate match the first \$300 contributed to the plan each fiscal year. Employee contributions for 2001 and 2000 were \$663,111 and \$666,956. The vacation pay and Senate matching contributions totaled \$106,665 and \$48,446 for the fiscal years ended June 30, 2001 and 2000. The Senate made all required matching contributions.

NOTE D – COMPENSATED ABSENCES

Governmental accounting principals generally accepted in the United States of America 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 at June 30 for vacation and sick leave, which would be payable as severance pay, are as follows:

| | <u>2001</u> | <u>2000</u> |
|------------|--------------------|--------------------|
| Vacation | \$ 882,240 | \$ 796,814 |
| Sick leave | <u>872,266</u> | <u>861,798</u> |
| | <u>\$1,754,506</u> | <u>\$1,658,612</u> |

Minnesota State Senate

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2001 and 2000

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

The accompanying financial 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 to fiscal year 2000 – Reserved | \$ 2,177,664 | \$(329,630) | \$ 1,848,034 |
| Appropriation | 19,138,100 | - | 19,138,100 |
| Other receipts | 15,571 | - | 15,571 |
| Expenditures | <u>(19,940,484)</u> | <u>68,772</u> | <u>(19,871,712)</u> |
| Appropriation carryforward | | | |
| Reserved | 814,631 | - | 814,631 |
| Unreserved | <u>576,220</u> | <u>(260,858)</u> | <u>315,362</u> |
| Appropriation carryforward to fiscal year 2001 | 1,390,851 | (260,858) | 1,129,993 |
| Appropriation | 20,523,000 | - | 20,523,000 |
| Other receipts | 29,361 | - | 29,361 |
| Expenditures | <u>(20,075,552)</u> | <u>(69,816)</u> | <u>(20,145,368)</u> |
| Appropriation carryforward to fiscal year 2002 – Reserved | <u>\$ 1,867,660</u> | <u>\$(330,674)</u> | <u>\$ 1,536,986</u> |

Under Minnesota State Law 16A.281, an appropriation, if not spent during the first year, may be spent during the second year of a biennium. The unreserved appropriation carryforward at June 30, 2001 represents the remainder of the 2001 appropriation. An unexpended appropriation balance not carried forward and remaining unexpended and unencumbered at the end of the biennium shall be returned to the fund from which appropriated. Balances carried forward into the next biennium are to be credited to special accounts to be used for non-recurring expenditures on

Minnesota State Senate

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2001 and 2000

NOTE E – RECONCILIATION OF SENATE STATEMENTS TO DEPARTMENT OF FINANCE BUDGETARY REPORTS – Continued

investments that enhance efficiency or improve effectiveness; to pay expenses associated with special session, interim activities, public hearings, or public outreach efforts and related activities; and to pay severance costs of involuntary terminations. The unexpended and unencumbered fund balances credited to the special accounts are as follows:

| | June 30, | |
|---|--------------------|------------------|
| | 2001 | 2000 |
| Investment expenditures | \$1,067,447 | \$ 32,927 |
| Special session, interim activity, public hearings and public outreach costs | 100,213 | 110,860 |
| Severance costs | 700,000 | 670,844 |
| | <u>\$1,867,660</u> | <u>\$814,631</u> |

NOTE F – RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

The Governmental Accounting Standards Board (GASB) has issued GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, which establishes new financial reporting requirements for state and local governments. GASB 34 establishes that the basic financial statements and required supplementary information for general purpose governments should consist of:

- management discussion and analysis
- basic financial statements (government-wide financial statements, fund financial statements, and notes to the financial statements)
- required supplementary information

Additionally, the GASB has issued two related statements: GASB Statement No. 37, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus*, and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*.

The State of Minnesota is in the process of implementing these statements for the year ending June 30, 2002. The effects of implementing these pronouncements on the financial statements of the Senate have not been determined.

**STATISTICAL INFORMATION
(UNAUDITED)**

Minnesota State Senate

COMPARATIVE SCHEDULE OF BUDGETARY EXPENDITURES

Years ended June 30,
(Unaudited)

| Description | 2001 | 2000 | 1999 | 1998 |
|--|-------------------|-------------------|-------------------|-------------------|
| Salaries and Benefits: | | | | |
| Salaries – senators | \$ 2,122,106 | \$ 2,111,546 | \$ 2,061,074 | \$ 2,017,477 |
| Salaries – staff | 11,153,590 | 10,509,778 | 9,846,631 | 9,040,064 |
| MSRS and FICA, and other benefits | 1,571,978 | 1,444,021 | 1,414,974 | 1,191,358 |
| Insurance – staff | 1,180,995 | 1,035,510 | 877,884 | 743,193 |
| Insurance – senators | 450,861 | 337,763 | 297,690 | 264,376 |
| Unemployment compensation | 24,848 | 14,233 | 12,129 | 18,425 |
| Workers' compensation | 30,451 | 23,792 | 36,366 | 9,599 |
| | <u>16,534,829</u> | <u>15,476,643</u> | <u>14,546,748</u> | <u>13,284,492</u> |
| Services: | | | | |
| Rents, leases, and maintenance (includes copy equipment) | 176,545 | 202,873 | 68,462 | 21,159 |
| Employment and publicity advertisement | 40,626 | 41,132 | 42,822 | 35,021 |
| Furniture and maintenance repairs | 62,147 | 51,390 | 43,362 | 38,129 |
| Maintenance agreements | 220,670 | 200,966 | 233,226 | 176,283 |
| Printing | 307,435 | 181,443 | 285,782 | 213,898 |
| Micrographics | 2,431 | 139 | 3,927 | 192 |
| Legal fees and settlements | - | - | - | 51,784 |
| Consultant expense | 59,431 | 46,347 | 104,706 | 99,885 |
| EDP – ISB | 20,469 | 24,413 | 25,630 | 23,043 |
| EDP – software | 41,021 | 35,198 | 149,452 | 9,869 |
| EDP – development (includes equipment) | 170,923 | 606,656 | 407,925 | 558,211 |
| Dry cleaning/carpet cleaning | 662 | 891 | 522 | 747 |
| Interns | 32,869 | 27,125 | 34,295 | 25,491 |
| | <u>1,135,229</u> | <u>1,418,573</u> | <u>1,400,111</u> | <u>1,253,712</u> |

Minnesota State Senate

COMPARATIVE SCHEDULE OF BUDGETARY EXPENDITURES – CONTINUED

Years ended June 30,
(Unaudited)

| Description | 2001 | 2000 | 1999 | 1998 |
|--|---------------------|---------------------|---------------------|---------------------|
| Subsistence: | | | | |
| Postage | \$ 171,697 | \$ 129,558 | \$ 164,110 | \$ 139,388 |
| Telephones | 321,132 | 330,834 | 264,276 | 672,470 |
| Delivery service | 1,168 | 1,050 | 3,132 | 3,581 |
| Mailing service | 11,189 | 8,754 | 11,576 | 9,825 |
| Mileage | 120,685 | 147,467 | 151,416 | 161,958 |
| In-state travel/lodging | 249,849 | 215,777 | 254,570 | 229,469 |
| Per diem | 677,913 | 456,768 | 559,176 | 421,912 |
| Registration | 85,546 | 62,594 | 79,845 | 70,430 |
| State vehicle | 920 | 2,353 | 2,063 | 1,177 |
| Out-state travel | 137,691 | 129,398 | 185,319 | 190,935 |
| Tuitions/memberships/admissions | <u>106,883</u> | <u>39,291</u> | <u>35,885</u> | <u>27,101</u> |
| | 1,884,673 | 1,523,844 | 1,711,368 | 1,928,246 |
| Furniture, Supplies, Equipment and Capital Outlay: | | | | |
| Video | 81,687 | 1,178,978 | 77,951 | 474,318 |
| Photographic | 37,420 | 34,330 | 9,591 | 6,614 |
| Furniture and equipment | 68,604 | 36,246 | 130,887 | 171,011 |
| Capital outlay | 29,888 | 11,777 | 24,800 | 315,743 |
| Office supplies/stationery | 175,196 | 153,213 | 157,669 | 129,870 |
| Newspaper and publications | 57,772 | 46,447 | 54,017 | 49,517 |
| Water and coolers | 20,617 | 15,648 | 21,225 | 12,129 |
| Cleaning supplies | 98 | 1,951 | 1,390 | 1,777 |
| Miscellaneous | <u>49,539</u> | <u>42,834</u> | <u>53,080</u> | <u>42,132</u> |
| | 520,821 | 1,521,424 | 530,610 | 1,203,111 |
| | 20,075,552 | 19,940,484 | 18,188,837 | 17,669,561 |
| Accrual basis adjustments | <u>69,816</u> | <u>(68,772)</u> | <u>208,023</u> | <u>(42,493)</u> |
| | <u>\$20,145,368</u> | <u>\$19,871,712</u> | <u>\$18,396,860</u> | <u>\$17,627,068</u> |

OTHER REQUIRED REPORTS

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS
ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING 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, 2001, and have issued our report thereon February 5, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Senate's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance which we have reported to management of the Senate in a separate letter dated February 5, 2002.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Senate's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements 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 over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the control over financial reporting, which we have reported to the management of the Senate in a separate letter dated February 5, 2002.

This report is intended solely for the information and use of management and the Minnesota State Senate and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Scott Thompson" followed by a stylized mark.

Minneapolis, Minnesota
February 5, 2002

February 5, 2002
Secretary of the Senate
Minnesota State Senate

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 February 5, 2002.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America and Government Auditing Standards

As stated in our engagement letter dated January 2, 2002, our responsibility, as prescribed by auditing standards generally accepted in the United States of America 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, whether caused by error or fraud. An audit in accordance with auditing standards generally accepted in the United States of America 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, fraud, 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.

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 accounting principles generally accepted in the United States of America for governmental entities. These adjustments are summarized in note E to the financial statements. Management has represented to us that they believe the uncorrected financial statement misstatement on the attached schedule is immaterial to the financial statements taken as a whole.

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.

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 solely for the information and use of management and the Minnesota State Senate and is not intended to be and should not be used by any one other than these specified parties.

Very truly yours,



Minnesota State Senate

UNCORRECTED FINANCIAL STATEMENT MISSTATEMENT

June 30, 2001

| | <u>Appropriations</u> | <u>Expenditures</u> |
|-----------------------------|-----------------------|---------------------|
| Appropriations carryforward | \$(5,184) | \$ - |
| Tuition | - | 5,184 |

To record a deposit in the correct period.

MEMORANDUM OF ADVISORY COMMENTS

CONTENTS

| | <u>Page</u> |
|---|-------------|
| DESCRIPTION OF STUDY AND EVALUATION | 25 |
| CURRENT YEAR COMMENTS | |
| SENATOR PHONE BILLS..... | 26 |
| STATUS OF PRIOR YEAR COMMENTS | |
| CARRYFORWARD APPROPRIATIONS..... | 27 |
| VACATION AND SICK LEAVE CALCULATIONS..... | 27 |
| TIMELINESS OF VENDOR PAYMENTS..... | 27 |
| MANAGEMENT RESPONSES | 29 |

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, 2001, 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
February 5, 2002

CURRENT YEAR COMMENTS

SENATOR PHONE BILLS

In 1994, a law was implemented requiring 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, 2001 and the log kept of those bills distributed to the Senators and their assistants for approval, we identified phone bills for eight Senators (between one and three months per Senator) that were not returned with a signature. None of these Senators were re-elected for the next term; thus, the receipt of these signed bills is highly unlikely.

We recommend the Senate implement a control where these bills must be received prior to the end of a Senator's term in order to comply with the law.

STATUS OF PRIOR YEAR COMMENTS

CARRYFORWARD APPROPRIATIONS

In the prior year, the Senate recorded expenditures related to voluntary terminations through special purpose carryforward balances, which was not in accordance with Minnesota State Statute 16A.281 and the uses of special purpose funds

The Senate corrected the carryforward balance and we noted no similar instances of this in the current fiscal year.

VACATION AND SICK LEAVE CALCULATIONS

In the prior year, we noted three instances where the Senate had incorrectly deducted employees' vacation/sick leave due to miscalculations in manual records, even though a new automated payroll system had been implemented. In the current year we noted one instance of a miscalculation.

We recommend Senate personnel perform periodic checks of the automated system by verifying the activity in an individual's accrual to supporting documentation (such as timesheets). The periodic check will help to ensure the completeness of the accrual. We also recommend manual calculation of the vacation/sick accrual be discontinued. The Senate had been performing both calculations for the entire calendar year 2001 to verify the accuracy of the new accounting package.

TIMELINESS OF VENDOR PAYMENTS

In the prior year, we noted two instances where invoices were not approved and submitted to fiscal services for payment until several months after the invoice date. One instance was also noted in the current year. Both current year and prior year payments were for Xerox invoices which are normally submitted for payment three months at a time. Senate personnel are aware of these delays, and pay such items as soon as proper approvals are obtained.