KPMG Peat Marwick

MINNESOTA STATE HOUSE OF REPRESENTATIVES

Statements of Status of Appropriations and Expenditures

For the year ended June 30, 1992

MINNESOTA STATE HOUSE OF REPRESENTATIVES

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REPORT ON COMPLIANCE

Independent Auditors' Report on Compliance

Lawrence W. Bothwell
Director of Staff
469 State Office Building
St. Paul, Minnesota 55155
(612) 296-3889

Minnesota House of Representatives

Robert Vanasek, Speaker

December 16, 1992

Representative Alan Welle, Chairman
Committee on Rules and Legislative Administration
Minnesota House of Representatives
St. Paul, Minnesota

Dear Representative Welle,

Herewith transmitted is the audit report by the accounting firm of KPMG Peat Marwick, conducted under a contract entered into by the House of Representatives to cover fiscal year 1992.

I have reviewed the recommendations made in this audit report and believe that they provide us with a sound foundation to further improve the internal administrative operations of the House of Representatives.

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

Finally, I recommend that the House of Representatives conduct an audit at the close of fiscal year 1993.

Sincerely,

Lawrence W. Bothwell

Lawrence W. Bothwell
Director of Staff

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KPMG Peat Marwick

Certified Public Accountants

4200 Norwest Center
90 South Seventh Street
Minneapolis, MN 55402

Independent Auditors' Report

Director of Staff
Minnesota State House of Representatives:

We have audited the accompanying statements of status of appropriations and expenditures of the Minnesota State House of Representatives (the House) for the year ended June 30, 1992. These statements are the responsibility of the House's management. Our responsibility is to express an opinion on these statements based on our audit.

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

As described in note 1, the statements of the House are intended to present only that portion of the State of Minnesota financial statements that is attributable to the transactions of the House.

In our opinion, the statements referred to above present fairly, in all material respects, the status of appropriations and expenditures of the Minnesota State House of Representatives for the year ended June 30, 1992 in conformity with generally accepted accounting principles.

KPMG Peat Marwick

December 11, 1992

MINNESOTA STATE HOUSE OF REPRESENTATIVES

Statement of Status of Appropriations

For the year ended June 30, 1992

Appropriation carryforward, beginning of year	$ 1,753,216
Appropriation for the year	20,234,000
Expenditures for the year	(20,591,549)
Appropriation carryforward, end of year	$ 1,395,667

See accompanying notes to statements.

MINNESOTA STATE HOUSE OF REPRESENTATIVES

Statement of Expenditures

For the year ended June 30, 1992

Salaries and benefits	$ 16,273,637
Purchased services	2,072,153
Travel, per diem, subsistence and registration	1,101,491
Communications	638,315
Supplies and materials	238,896
Capital outlay – equipment	267,057
	$ 20,591,549

See accompanying notes to statements.

MINNESOTA STATE HOUSE OF REPRESENTATIVES

Notes to Statements

For the year ended June 30, 1992

(1) Financial Reporting Entity

The House was established in 1858. It consists of 134 members who are elected by Minnesota voters to serve two-year terms making laws for the State of Minnesota (the State) and its people, and proposing amendments to the State constitution. The House is part of the legislative branch of the State government and, as such, its financial transactions are included in the General Fund and become part of the State financial reporting entity. The financial statements of the General Fund of the State are examined by the Office of the Legislative Auditor.

(2) Summary of Significant Accounting Policies

The accounting policies of the Minnesota State House of Representatives (the House) conform to generally accepted accounting principles as applicable to governmental units. The following is a summary of the more significant accounting policies:

Basis of Presentation

The House 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 statement of status of appropriations. The House'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.

The financial statements of the House 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 4).

Disbursement of Funds

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

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Budgetary Accounting

The House adopts a budget for each year of the State's fiscal biennium that reflects the total amount that can be expended by the House. Budgets for each year in a biennium are prepared by the House's administrative staff. The budget is first reviewed and approved by the House Committee on Rules and Administration. The budget is then referred to the House finance committee. The budget must be approved by the House finance committee, the House and the State Senate. The approved budget is submitted to the State's Department of Finance and an appropriation for the budgeted amount is awarded for each year in the biennium.

Expenditures cannot legally exceed the total initially budgeted unless supplemental appropriations are approved by the State Commissioner of Finance or unspent appropriations carried forward from previous years are available.

Vacation and Sick Leave Policy

Permanent employees accrue vacation and sick leave according to State administrative guidelines. Representatives 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 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).

Fixed Assets

Fixed asset acquisitions are recorded as expenditures, consistent with the procedures for governmental fund–type accounting. The House maintains a record of its fixed assets at historical cost in a memorandum ledger.

(3) Pension Plans

The House is involved in two pension programs as follows:

(a) Representatives are covered by the Legislative Retirement Plan, a defined benefit plan which is administered by the Minnesota State Retirement System. Representatives contribute nine percent of their salaries to the plan. These contributions are deposited into the State's General Fund. Upon retirement of a representative, funds equal to the present value of future benefits to be paid to that representative are transferred from the General Fund to the Minnesota Post Retirement Investment Fund. The House makes no direct contribution to the plan and is not responsible for any unfunded liability of the plan.

(Continued)

(b) All permanent employees of the House 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 House contributes six percent of salaries to the plan. The House's contribution was $498,122 in 1992.

(4) Compensated Absences

Statement 4 of the National Council on Governmental Accounting, as recognized by Government Standards Board Statement 1, specifies that the liability for unpaid vacation and sick leave in which employees are entitled to is to be reported in the General Long-term Debt Account Group if it is not to be liquidated with expendable available financial resources. Consistent with this Statement, the House does not record accrued liabilities for compensated absences but recognizes these expenses as they are paid. Such liability related to the House 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 for the year ended June 30, 1992:

Vacation	$ 641,912
Sick leave	660,537
	$ 1,302,449

(5) Reconciliation of House Statements to Department of Finance Budgetary Reports

The accompanying statements of status of appropriations and expenditures are prepared on a different basis of accounting than the budgetary reports of the State's Department of Finance. The House 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 can occur between expenditures reported in the House financial statements and expenditures reported by the Department of Finance. However, no significant differences existed for the year ended June 30, 1992.

KPMG Peat Marwick

Certified Public Accountants

4200 Norwest Center
90 South Seventh Street
Minneapolis, MN 55402

Independent Auditors' Report on Internal Accounting Control

Director of Staff
Minnesota State House of Representatives:

We have audited the statements of status of appropriations and expenditures of the Minnesota State House of Representatives (the House) as of and for the year ended June 30, 1992, and have issued our report thereon dated December 11, 1992.

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 House for the year ended June 30, 1992, 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 House 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 all 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.

This report is intended for the information of management and the Minnesota State House of Representatives. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

KPMG Peat Marwick

December 11, 1992

MINNESOTA STATE HOUSE OF REPRESENTATIVES

Current Year Comments and Recommendations Regarding
Internal Accounting Controls and Operations

PURCHASE ORDERS

We noted the following in our review of purchase orders:

- Purchase orders are not utilized for all purchases made by the House.
- The sequence of purchase orders is not controlled.
- Authorization policies are not clearly defined.

We recommend that the House implement the following procedures to provide better control over expenditures:

- Centralize the purchasing function.
- All purchases should be documented by written purchase orders.
- A copy of the purchase order should be distributed to the individual who ordered the goods, the vendor, the department that will receive the goods (i.e., Supply or M/S) and accounting.
- The sequence of issued and voided purchase orders should be accounted for periodically to ascertain that proper approvals have been obtained for outstanding orders and the House is aware of all outstanding purchase commitments. Older unmatched purchase orders should be investigated to ascertain their disposition.
- The House should limit the number of individuals authorized to approve purchase orders. All purchase orders over a certain amount, such as $1,000, should require two authorizations.
- All goods received should be compared to the purchase order and invoice to determine that all items ordered were properly received, authorized and billed. This review should be documented on the invoice.
- Consider using the Great Plains system for issuing and tracking purchase orders.

ACCOUNTS PAYABLE

The House does not prepare a detailed listing of outstanding invoices payable.

An accounts payable listing could be used to help ensure that all invoices are paid on time and all available discounts are taken. Additionally, by utilizing the listing the House could update budgets more efficiently. We recommend that the House utilize the accounts payable module included in the Great Plains system.

(Continued)

MINNESOTA STATE HOUSE OF REPRESENTATIVES

POSTAGE STAMPS

Currently, the distribution of postage stamps is tracked on manual cards. This distribution could be tracked more efficiently by the use of a computer spreadsheet. A spreadsheet of this type would be easy to develop and maintain. Additionally, the stamps should be locked in a safe or file cabinet.

BUS PASSES

The House purchases bus passes for employees and is reimbursed by each employee who orders a pass. This procedure could be more efficient by having the employees reimburse the House through a payroll deduction rather than by check.

REIMBURSEMENTS

Timeliness

Currently, some reimbursement requests, such as members' per diem, are turned in several weeks after the expenses have been incurred. This could lead to expenses being recorded in the wrong year and it also prevents budgets from being updated in a timely manner. We recommend that a time limit be set for reimbursement requests, such as six weeks from the date incurred.

Competitive Pricing

There is no requirement for an employee to obtain and compare other prices for a good or service prior to purchasing it.

We recommend that the House require that each employee provide evidence of at least three prices for each purchase over a certain dollar amount (say $300). For recurring purchases where the price does not fluctuate, an employee would not need to obtain the three comparative prices. Cost should not be the sole determining factor in purchase decisions.

The House should also designate one employee or department to make all travel arrangements to ensure that the best possible cost is obtained.

Mileage Reimbursements

Currently, the House manually calculates mileage reimbursements. These calculations could be done more efficiently by the use of a computer spreadsheet. All relevant information should be entered into the spreadsheet, such as round trip mileage, reimbursement amount per mile, etc. The spreadsheet would calculate the amount to be reimbursed based on the number of round trips.

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MINNESOTA STATE HOUSE OF REPRESENTATIVES

Postage

The House currently allows individuals to use the postage machine as long as they reimburse the House for the cost of the postage. We noted, however, a number of reimbursements for postage, which take time to process. Also, individuals do not reimburse the House immediately, so the House has to keep records of these outstanding amounts (which also takes time to maintain). Therefore, we recommend that the House evaluate the current policy regarding postage to determine if the policy should be altered to reduce the volume of reimbursements and expedite reimbursements.

SUPPLY INVENTORY SYSTEM

The House does not have a computerized inventory system. We recommend that the House utilize the inventory module included in the Great Plains system. This would allow for better tracking of information, such as supply levels, reordering points and purchase volumes by vendor (which could be utilized in negotiating prices). The House should also consider the cost benefit of a bar coding system, which would make it even easier to track supplies. The House, however, may want to establish a dollar limit for tracking supplies, such as $100.

FIXED ASSET SYSTEM

Currently, there is no detail listing of fixed assets and the location of some assets is unknown. The House should consider using the fixed asset module included in the Great Plains system and, possibly, a bar coding system to track all fixed assets. The House, however, may want to establish a dollar limit for tracking fixed assets, such as $1,000.

An initial physical inventory should be taken by the Supply Department and all fixed assets should be tagged with a sequential number. This initial inventory listing should be updated each year by the Supply Department for new acquisitions and disposals.

Each department should then take a periodic physical inventory of their own equipment and compare it to their updated listing from the Supply Department. Any differences should be resolved in a timely manner. These listings should then be reviewed for propriety by the respective department head and sent back to the Supply Department. The House should consider the cost benefit of these physical inventories to determine how frequently (annually, every three years, etc.) they should be performed.

Additionally, any disposals/sales of fixed assets should be approved on an official House form to ensure proper authorization and communication to the Supply Department. The fixed asset listing should also include the acquisition date of each piece of equipment to assist in decisions regarding disposals.

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MINNESOTA STATE HOUSE OF REPRESENTATIVES

PAYROLL

Timesheets

Timesheets are often turned in late to accounting. We recommend that the House establish a deadline for timesheets to be turned into accounting. The deadline should be set a week before payroll checks are issued in order to give accounting a sufficient amount of time to process the timesheets. The House should consider going to a biweekly payroll cycle, so that all payroll periods are of equal lengths and match other state agencies. All timesheets should be signed or initialed by a supervisor.

Additionally, each timesheet should be compared to its related payroll check to ensure that the correct amount was paid and any differences should be corrected on the employee's next paycheck.

PAYROLL CHECKS

Checks are currently issued at varying times after they have been generated. We recommend the House set a specific date for checks to be distributed and individuals should not attempt to pick up their check prior to this date.

"Trailer" checks that are issued in conjunction with payroll (i.e. insurance, FICA, etc.) should be automatically generated by the payroll system to increase efficiency and reduce the risk of errors. Unused checks should be locked in a safe or file cabinet.

VACATION/SICK LEAVE

Currently, each person's accrual for vacation and sick leave is calculated manually. These accruals should be calculated by the payroll system to increase efficiency and reduce the possibility of errors.

The House should also consider printing accrued vacation and sick leave balances on each person's check. This would speed up the identification of any differences between an employee's records and the House's records.

BUDGETS

Budgets should be established for all areas of operations by expense category.

A budget report should then be set up so the budgets can be compared to actuals on a regular basis and any differences should be investigated promptly. The actuals should be updated on a weekly basis for any new purchase orders issued or accounts payable and payroll checks generated. The House could also consider imputing the budgets into the general ledger.

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MINNESOTA STATE HOUSE OF REPRESENTATIVES

GENERAL LEDGER ACCOUNT NUMBERS

General ledger account numbers are not organized by department or committee. This makes it difficult for the House to generate specialized reports for purposes of analysis.

We recommend that the House set up a general ledger numbering system that will allow information to be sorted and analyzed by cost category or functional area.

The House should also consider setting up additional account numbers to separate different types of entries. For example, the House may want to have separate accounts for debit and credit entries. This would make reconciliations easier to complete.

GENERAL LEDGER RECONCILIATION

The general ledger should be reconciled to the current year abstracts and the Department of Finance's records on a monthly basis. Any differences should be investigated and resolved promptly. By completing this reconciliation on a monthly basis, it will be easier to investigate any differences.

OPERATING MANUAL

The House should develop an operating manual which sets forth established policies, methods and procedures. Topics in the manual should include record retention policies, reimbursement policies, etc. Reimbursement guidelines should include definitions of reimbursable expenses and the allowable amounts by geographical region.

PROCEDURE MANUALS/CROSS TRAINING

Procedure manuals should be written for all positions. These manuals should contain sufficient detail so that a person could perform all the responsibilities of a position after reading them. These manuals should be updated at least annually.

Employees should also be cross trained to perform other positions within the department. Each position should have at least two people that are familiar with the related responsibilities. In the case of vacation, illness or termination of employment, procedure manuals and an adequate cross-training program will allow for the flexible allocation of staff to accommodate the current work flow on a temporary basis.

KPMG Peat Marwick

Certified Public Accountants

4200 Norwest Center
90 South Seventh Street
Minneapolis, MN 55402

Independent Auditors' Report on Compliance

Director of Staff
Minnesota State House of Representatives:

We have audited the statements of status of appropriations and expenditures of the Minnesota State House of Representatives (the House) as of and for the year ended June 30, 1992, and have issued our report thereon dated December 11, 1992.

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 House is the responsibility of the House's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the House'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.

The results of our tests indicate that, with respect to the items tested, the House complied, in all material respects, with the provisions referred to in the preceding paragraph. With respect to items not tested, nothing came to our attention that caused us to believe that the House had not complied, in all material respects, with those provisions.

This report is intended for the information of management and the Minnesota State House of Representatives. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

KPMG Peat Marwick

December 11, 1992