

Audit Report  
Executive Officers  
Established by The Constitution

ATTORNEY GENERAL  
AUDITOR  
GOVERNOR  
LIEUTENANT GOVERNOR  
SECRETARY OF STATE  
TREASURER

OFFICE OF THE LEGISLATIVE AUDITOR  
FINANCIAL AUDIT DIVISION

JUNE 1983



STATE OF MINNESOTA  
OFFICE OF THE LEGISLATIVE AUDITOR  
Veterans Service Building  
St. Paul, Minnesota 55155

GERALD W. CHRISTENSON  
Legislative Auditor

(612) 296-4708

Representative Dick Welch, Chairman  
Legislative Audit Commission

This report contains the results of our audits of the six constitutional officers for the years ended June 30, 1981 and 1982, and the period ended December 31, 1982. The six officers are the Attorney General, Auditor, Governor, Lieutenant Governor, Secretary of State and Treasurer.

The audits were conducted in accordance with the policy of the Legislative Auditor to perform audits of the administrative practices of the six elected state constitutional officers as follows:

- an audit to commence not later than June 30 of the third year in office, so that a report is issued by the end of the third year in the term, and
- an audit to commence in December of the fourth year, so that a report is issued soon after the end of the term.

Conducting an audit at the end of a term is advisable, especially when there is a transition between officers. An audit helps to assure the incoming officer of the balance (from the first half of the appropriation year) that is available for his use during the second half of the appropriation year. After the last election, the Offices of the Attorney General, the Governor, the Lieutenant Governor, and the Treasurer were occupied by different successors. Minn. Stat. Section 3.973 requires the Legislative Auditor to witness and attest the transfer of books, accounts, vouchers, and funds from the outgoing Treasurer to his successor. The high visibility of the constitutional officers also requires an audit on a regular basis to assure interested parties that officers whom they have elected are conducting their activities in a prudent manner. When doing these fiscal and compliance audits, we followed generally accepted governmental auditing standards in the same manner as when we audit other state agencies.

For each officer we have included a report with:

- findings and recommendations developed during our review of accounting procedures and controls,

- a summary showing the status of recommendations made in the prior audit report and the progress toward implementation,
- individual financial statements prepared by the auditors for general information on the operations of each office, and
- the officer's response to the recommendations included in the current report.

A table of contents for each officer identifies the individual sections and shows the staff of the Legislative Auditor and of the officer who participated in the audit.

The recommendations in the reports have been discussed with the appropriate office personnel of the former officer being audited (Attorney General, Governor, Lieutenant Governor, and State Treasurer) and with the appropriate office personnel of all current officers. The recommendations are presented to assist the officers in improving accounting procedures and controls used in processing their expenditures and any revenues collected. They can be implemented by the staff of the appropriate officer and will not require statutory change or any other involvement from the Legislature. During our next audits, we will review the progress toward implementing these recommendations.

Our audit tests indicated noncompliance with certain statutory requirements of the State Treasurer's Office as explained in that report. All other officers are in compliance with basic statutory requirements.

*Gerald W. Christenson*

Gerald W. Christenson  
Legislative Auditor

June 1, 1983

AUDIT REPORT

Office of the  
ATTORNEY GENERAL

Years Ended June 30, 1981 and 1982  
and  
Six Months Ended December 31, 1982

Operating under the State Constitution  
Article V and Minn. Stat. Chapter 8

OFFICE OF THE LEGISLATIVE AUDITOR  
FINANCIAL AUDIT DIVISION



STATE OF MINNESOTA  
OFFICE OF THE LEGISLATIVE AUDITOR  
Veterans Service Building  
St. Paul, Minnesota 55155

GERALD W. CHRISTENSON  
Legislative Auditor

(612) 296-4708

Representative Dick Welch, Chairman  
Legislative Audit Commission

The Honorable Warren Spannaus  
Attorney General (former)

and

The Honorable Hubert H. Humphrey, III  
Attorney General

We have completed a financial and compliance audit of the Office of the Attorney General for the years ended June 30, 1981 and 1982, and the six months ended December 31, 1982. The audit field work was completed February 1, 1983. Our audit was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. The objectives of the audit were to determine that:

- effective control is being maintained over revenues, expenditures, assets and liabilities;
- proper accounting is made for resources and operations;
- administrative practices, activities and programs are carried out in accordance with the requirements of the state constitution, applicable laws, and regulations;
- the disbursements from the department head expense account were properly supported and made for a purpose related to the office; and
- the recommendations of the prior audit report were addressed.

Our audit results indicated that the Office of the Attorney General is in compliance with basic statutory requirements.

The recommendations included in this report are presented to assist you in improving accounting procedures and controls. Progress on implementing these recommendations will be reviewed during our next audit. A summary of

Representative Dick Welch, Chairman  
The Honorable Warren Spannaus  
and  
The Honorable Hubert H. Humphrey, III  
Page 2

the progress on all audit recommendations developed during our prior audit is shown in the section entitled "Status of Prior Audit Recommendations and Progress Toward Implementation."

The financial statements in this report are presented for the general information of the reader only, and do not purport to represent financial position or results of operations in accordance with generally accepted accounting principles. The financial statements were not audited by us, and accordingly, we do not express an opinion on them. See Note 1 of the financial statements for an explanation of the basis of financial statement presentation.

This audit was conducted in accordance with the policy of the Legislative Auditor to perform audits of the administrative practices of the six elected state constitutional officers as follows:

- an audit to commence no later than June 30 of the third year in office, so that a report is issued by the end of the third year in the term, and
- an audit to commence in December of the fourth year, so that a report is issued soon after the end of the term.

This schedule is not meant to preclude the Legislative Auditor from making an interim audit if deemed necessary, or as directed by the Legislature or the Legislative Audit Commission.

Thank you for your cooperation during this audit.

*Gerald W. Christenson*

Gerald W. Christenson  
Legislative Auditor

May 16, 1983

OFFICE OF THE ATTORNEY GENERAL

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AUDIT PARTICIPATION

STAFF FROM THE OFFICE OF THE LEGISLATIVE AUDITOR:

John Asmussen, CPA, Deputy Legislative Auditor  
Warren Bartz, CPA, Audit Manager  
Jerome McCallson, CPA, Auditor-in-Charge  
Carl Otto, CPA, Staff Auditor  
Donald Ruckmar, Staff Auditor

EXIT CONFERENCE

The findings and recommendations in this report were discussed with the following representatives of the Office of the Attorney General on February 4, 1983.

Richard B. Allyn, Chief Deputy Attorney General  
Joseph Reid, Administrative Manager  
Rebecca Spartz, Assistant to the Attorney General

# OFFICE OF THE ATTORNEY GENERAL

## INTRODUCTION

The Attorney General's Office (AGO) was established as part of the executive department of state government by the Constitution of the State of Minnesota. The voters of the state elect the Attorney General who serves a four year term. The Attorney General's main duties include providing legal advice, representing state agencies and their officials, and offering direct legal assistance to the general public. The Attorney General is a member of the Executive Council, the Land Exchange Board, and the Pardons Board.

Other responsibilities of the Attorney General include interpreting the statutes, issuing legal opinions, assisting in the legislative process, providing legal services for local units of governments and prosecuting violators of consumer protection and antitrust laws. The Attorney General has the power to represent the State of Minnesota in civil and criminal cases. The employee position complement increased from 286 as of June 30, 1980 to 294 as of December 31, 1982.

The activities of the AGO are financed through appropriations from the General Fund and federal grants. The scope of this financial and compliance audit included revenues and expenditures for general operations, antitrust administration, federal crime grants, miscellaneous litigation settlements, and legal services provided to other state agencies.

OFFICE OF THE ATTORNEY GENERAL

CURRENT FINDINGS AND RECOMMENDATIONS

Cash receipt procedures and controls are inadequate.

The Attorney General has receipts of approximately \$2 to 3 million each year, as can be seen in Exhibit C. The main source of receipts is for legal services and statutory fines, but federal grants and restitutions as the result of court settlements also were significant sources.

Cash receipts are handled by several people before being deposited in the state treasury. No listing of receipts is prepared by the mail opener, and no restrictive endorsement is stamped on the checks when the mail is opened. The risk of a lost or misplaced check is increased by these conditions, because the mail is opened and the deposits are prepared at different locations.

Good internal control over receipts requires that receipts be listed when received, that checks be endorsed immediately "for deposit only," and that the list subsequently be compared to the deposit records by someone independent of the receiving and deposit functions.

RECOMMENDATIONS:

1. The mail opener should prepare a control listing of cash receipts.
2. Checks should be endorsed "for deposit only" immediately upon receipt.
3. Someone independent of mail receipt and deposit preparation should verify that receipts as listed are properly deposited or accounted for.

PRIOR RECOMMENDATION NOT IMPLEMENTED: Internal controls over payroll need strengthening to assure adequate monitoring of payroll.

The AGO payroll expenditures for the fiscal years 1981 and 1982 were approximately \$7.8 million and \$8.6 million, respectively, or 81.7 percent and 84.7 percent of total expenditures. Because salary costs are so significant, in our last audit report we made several recommendations to strengthen internal control over payroll. In response to our recommendations, the AGO implemented a positive time reporting system for the nearly 300 classified and unclassified employees. This system is also used for billing legal services to various agencies that are served.

OFFICE OF THE ATTORNEY GENERAL

Duties involving payroll and personnel were not adequately separated during the audit period. The personnel aide prepared the payroll roster and processed various personnel forms. No secondary written approval was shown on these documents. In addition, the personnel aide maintained personnel files and leave records.

RECOMMENDATION:

4. The payroll roster and the personnel action forms should contain the written approval of the general service manager or the administrative manager to separate the responsibilities involved in processing payroll.

Procedures over consumer civil penalties accounts receivable do not include any type of summary record.

Under Minn. Stat. Section 8.31, Subd. 3, the consumer division of the AGO recovers civil penalties from violators of the consumer protection laws. The court order provides the method of payment for each penalty which is based on the financial ability of the defendant and which currently cannot exceed \$25,000. Civil penalties totaling \$285,000 were entered in our audit period.

In our last audit report for the AGO, we found that procedures were not centralized, and we recommended that an accounts receivable ledger should be kept on a uniform and timely basis to control the installment payments and to monitor outstanding amounts. An attorney's secretary has been assigned responsibility for the records which are kept in the "judgment book." She posts all transactions at the instruction of the appropriate attorney and files copies of court orders affecting the accounts. However, no control account to show the balance of penalties receivable has been instituted. If anyone wants to know the total transactions for a period or total balance due at a specific date, the individual records of balances due must be totaled.

Accurate accounts receivable records aid in monitoring and collecting outstanding amounts and in recognizing revenue on the SWA (statewide accounting) system. A control account showing the total amount due at a specific date, such as the end of a month, is a necessary part of the records.

RECOMMENDATION:

5. A control account for consumer civil penalties should be used to summarize all judgment balances due and reconciled to subsidy ledger sheets periodically.

OFFICE OF THE ATTORNEY GENERAL

EXHIBIT A

UNAUDITED, FOR INFORMATIONAL PURPOSES ONLY, SEE NOTE 1

STATEMENT OF APPROPRIATIONS, TRANSFERS, EXPENDITURES, AND AVAILABLE BALANCE

- Years Ended June 30, 1981 and 1982, and Six Months Ended December 31, 1982 -

	Years Ended June 30		Six Months Ended
	1981	1982	12/31/82
<u>General Fund</u>			
State Appropriations - Exhibit B	\$9,642,946	\$10,114,782	\$11,078,218
Appropriation Cancellations	(332,297)	(115,897)	
Transfers In:			
Salary Supplements	214,961	154,001	276,355
Legislative Advisory Commission		92,500	
Other			258
Receipts from sale of scrap			500
Total Available	<u>\$9,525,610</u>	<u>\$10,152,886</u>	<u>\$11,447,831</u>
Expenditures - Note 2:			
Public Administration	\$1,215,426	\$ 1,225,456	\$ 642,040
Public Resources	2,404,114	2,487,914	1,292,774
Antitrust Administration	234,077	217,464	27,263
Public Protection	2,181,789	2,453,467	1,441,770
Legal Policy and Administration	2,256,003	2,439,878	1,127,466
Public Assistance	1,231,701	1,322,240	713,954
Other	2,500	6,467	67,329
Total Expenditures	<u>\$9,525,610</u>	<u>\$10,152,886</u>	<u>\$ 5,312,596</u>
Available Balance - December 31, 1982	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 6,135,235</u>
<u>Federal Fund</u>			
Undisbursed balance July 1	\$ 16,334	\$ 17,323	\$ 2,000
Federal grants and other reimbursements - Exhibit C	<u>113,768</u>	<u>142,766</u>	<u>85,360</u>
Total Available	<u>\$ 130,102</u>	<u>\$ 160,089</u>	<u>\$ 87,360</u>
Expenditures:			
Federal crime grant expenditures	8,533		
Federal antitrust grant expenditures	<u>121,569</u>	<u>155,589</u>	<u>143,612</u>
Total Expenditures	<u>\$ 130,102</u>	<u>\$ 155,589</u>	<u>\$ 143,612</u>
Available Balance - December 31, 1982 - Note 3	<u>\$ -0-</u>	<u>\$ 4,500</u>	<u>\$ (56,252)</u>

OFFICE OF THE ATTORNEY GENERAL

EXHIBIT A  
(Continued)

	Years Ended June 30		Six Months Ended
	<u>1981</u>	<u>1982</u>	<u>12/31/82</u>
<u>Agency Fund</u>			
Undisbursed balance July 1	\$ 3,702	\$ 4,230	\$ 3,431
Deposits from litigation settlements and other receipts - Exhibit C	<u>11,712</u>	<u>2,799</u>	<u>6,422</u>
Total Available	<u>\$ 15,414</u>	<u>\$ 7,029</u>	<u>\$ 9,853</u>
Expenditures to distribute litigation settlements	<u>15,414</u>	<u>7,029</u>	<u>5,840</u>
Available Balance - December 31, 1982	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 4,013</u>

OFFICE OF THE ATTORNEY GENERAL

EXHIBIT B

UNAUDITED, FOR INFORMATIONAL PURPOSES ONLY, SEE NOTE 1

SCHEDULE OF APPROPRIATIONS AND BUDGET REDUCTIONS

Years Ended June 30, 1981 and 1982 and  
Six Months Ended December 31, 1982

	Year Ended June 30		
	1981	1982	1983
<u>General Fund</u>			
Appropriations:			
Laws of 1979, Chapter 333, Section 13	\$9,403,500		
Laws of 1979, Extra Session, Chapter 3 Section 69	72,500		
Laws of 1981, Chapter 356, Section 14		\$11,019,600	\$12,008,200
Minnesota Statutes Section 16A.48			1,500
Appropriation Balance Carried Forward	116,946	(289,018)	289,018
Budget Reductions:			
Laws of 1981, Chapter 356, Section 14		(230,100)	(244,900)
Laws of 1981, 3rd Special Session, Chapter 2, Article 1, Section 2(i)		(385,700)	(925,600)
Laws of 1982, 3rd Special Session, Chapter 1			( 50,000)
Available Appropriations - Exhibit A	<u>\$9,642,946</u>	<u>\$10,114,782</u>	<u>\$11,078,218</u>

UNAUDITED, FOR INFORMATIONAL PURPOSES ONLY, SEE NOTE 1

## STATEMENT OF REVENUE DEPOSITED WITH THE STATE TREASURER

- Years Ended June 30, 1981 and 1982  
and Six Months Ended December 31, 1982 -

	Year Ended June 30		Six Months Ending 12/31/82
	<u>1981</u>	<u>1982</u>	
<u>General Fund - Note 4</u>			
Legal services and other earnings	\$1,766,443	\$2,652,061	\$1,101,200
Statutory fines	1,000	226,592	87,382
Restitutions	152,789	189,828	9,749
Refunds of prior year expenditures	223	599	548
Other reimbursements	8,492	6,557	4,586
Sale of scrap			500
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total General Fund	<u>\$1,928,947</u>	<u>\$3,075,597</u>	<u>\$1,203,965</u>
<u>Federal Fund</u>			
Federal grants for antitrust enforcement	\$ 113,566	\$ 142,766	\$ 85,360
Other reimbursements	202		
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total Federal Fund - Exhibit A	<u>\$ 113,768</u>	<u>\$ 142,766</u>	<u>\$ 85,360</u>
<u>Agency Fund</u>			
Deposits from litigation settlements	\$ 11,311	\$ 2,620	\$ 6,422
Refunds of prior year expenditures		179	
Other reimbursements	401		
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total Agency Fund - Exhibit A	<u>\$ 11,712</u>	<u>\$ 2,799</u>	<u>\$ 6,422</u>

NOTES TO THE FINANCIAL STATEMENTS

- Note 1: The financial statements do not represent financial position or results of operations in accordance with generally accepted accounting principles. The Statewide Accounting (SWA) system reports through September 5, 1981, September 4, 1982, and December 31, 1982, were used in preparing these statements with adjustments for activity occurring subsequent to that date. Consequently, the statements were not prepared using the accrual basis of accounting.
- Note 2: The expenditures for the years ended June 30, 1981 and 1982 include applicable disbursements and adjustments which occurred after the Statewide Accounting System cutoff dates. Expenditures for the year ended June 30, 1982 and the six months ended December 31, 1982 include encumbrances totaling \$2,811 and \$497,832 which were related to the periods' activities.
- Note 3: Federal receipts were drawn subsequently to cover the overdrawn balance at December 31, 1982.
- Note 4: Except for the sale of scrap, the revenue deposited to the credit of the General Fund is nondedicated and does not increase the available appropriation.

OFFICE OF THE ATTORNEY GENERAL

STATUS OF PRIOR AUDIT RECOMMENDATIONS  
AND  
PROGRESS TOWARD IMPLEMENTATION

Legal service accounts receivable for the period prior to July 1, 1980 have not been entered on the computerized accounts receivable system.

1. Subsidiary ledger and summary control accounts should be established for all legal service billings prior to July 1, 1980. Consideration should be given to inputting this information onto the current computerized accounts receivable system.

Recommendation Implemented.

Procedures over consumer civil penalties accounts receivable are not centralized.

2. The accounts receivable ledger should be kept on a uniform and timely basis to control the installment payments and to monitor outstanding accounts.

Recommendation Partially Implemented. See current recommendation #5.

Duties between the purchasing and receiving functions are not separated.

3. All invoices presented for payment should be accompanied by a receiving report prepared by the person accepting the purchase, as evidence of goods or services having been received.

Recommendation Implemented.

4. The accounting staff at the administrative office should not be accepting any goods or services.

Recommendation Implemented.

Distributions of restitutions in consumer protection civil action suits were not adequately documented.

5. For all consumer restitutions, either a copy of the court order should be submitted to support the request for payment or the attorneys/investigators should submit a signed letter explaining all the facts and authorizing payments to the consumers.

Recommendation Implemented.

OFFICE OF THE ATTORNEY GENERAL

The Attorney General's Office does not have written contracts for court reporters' services.

6. A contract should be drafted and utilized as a confirmation of the agreement with each court reporter providing services to AGO. After the contract is established, AGO should ensure that all court reporters' invoices are detailed and itemized and that the amounts billed are verified to the amounts contracted before the payment is approved.

Recommendation Implemented.

Internal controls over payroll needs strengthening to assure adequate monitoring of payroll.

7. Positive time reporting should be implemented for all classified and unclassified employees. Daily, weekly or biweekly time reports can be utilized and should be signed by the employee and the supervisor to ensure accountability for the time that the employee is being compensated for.

Recommendation Implemented.

8. The payroll roster should be signed by an individual not directly associated with payroll and personnel processing.

RECOMMENDATION NOT IMPLEMENTED. See current recommendation #4.

9. To enhance internal control, the duties associated with the personnel and payroll functions should be separated. Payroll warrants should be picked up and distributed by an independent person, not involved in the processing.

Recommendation Implemented.

All AGO employees should adhere to the statewide and internal travel regulations to substantiate their travel expenditures, which totaled \$255,000 in fiscal years 1979 and 1980.

10. Actual documentation of travel expenses should be required and submitted whenever possible. Only when that is not possible should an affidavit, showing the amount of the undocumented expense and explanation of why the actual document cannot be obtained, be used.

Recommendation Implemented.

11. Reimbursement of \$93.52 should be made by the three individuals who were overcompensated for travel expense and deposited into the General Fund as an expenditure reimbursement.

Recommendation Implemented.

OFFICE OF THE ATTORNEY GENERAL

12. All employees submitting travel vouchers, approving the expenses or making payments should be informed of and should apply the travel policies and procedures.

Recommendation Implemented.

Controls and procedures over the imprest cash account need improvement.

13. An independent employee, not involved with imprest cash, should receive the bank statements and reconcile the bank accounts on a monthly basis. The completed reconciliation form and all other documentation should be retained for subsequent review.

Recommendation Implemented.

# DORSEY & WHITNEY

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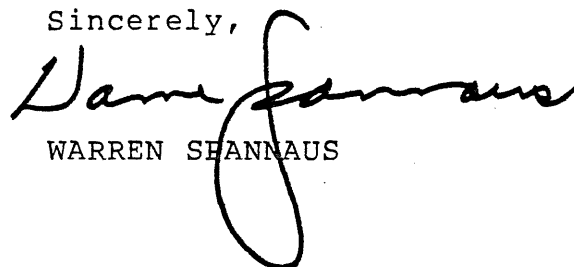
May 16, 1983

Gerald Christenson  
Legislative Auditor  
Office of the Legislative Auditor  
1st Floor, West Wing  
Veterans Service Building  
St. Paul, MN 55155

Dear Mr. Christenson:

Attorney General Humphrey and his staff have prepared a detailed response to the audit of the Attorney General's Office covering the years ending June 30, 1981 and 1982 and the six months ending December 31, 1982. I am pleased that the results of the audit indicate that our office was in compliance with all basic statutory requirements. I appreciate the opportunity to respond to the findings and recommendations raised in the report. I also appreciate the assistance provided by the Legislative Auditor's Office to our office during my twelve years of elected service.

Sincerely,



WARREN SPANNAUS



STATE OF MINNESOTA

OFFICE OF THE ATTORNEY GENERAL

HUBERT H. HUMPHREY, III
ATTORNEY GENERAL

ST. PAUL 55155

April 15, 1983

ADDRESS REPLY TO:
102 CAPITOL BUILDING
ST. PAUL, MN 55155
TELEPHONE: (612) 297-3647

Mr. Gerald Christenson
Legislative Auditor
Office of the Legislative Auditor
Veterans Service Bldg.
First Floor, West Wing
St. Paul, MN 55155

Dear Mr. Christenson:

We are pleased at the results of the audit by your staff
indicating that our office is in compliance with all basic statutory
requirements. We have reviewed their recommendations and would like
to bring you up to date on what we have done to improve our
procedures and controls.

Recommendations

- (1) The mail opener should prepare a control listing of cash
receipts.

Statement

Person Responsible For Action: Joseph Reid
Completion Date: April 29, 1983
Action Taken: Mail openers in each of our offices
have been instructed to maintain
a control listing of cash
receipts and to send a copy of
the listing to the accounting
officer at the Capitol office on
a monthly basis. She will check
the deposits against the control
sheet.

- (2) Checks should be endorsed "For deposit only" immediately upon
receipt.

Person Responsible For Action: Joseph Reid
Completion Date: April 29, 1983
Action Taken: Mail openers have been instructed to
endorse all checks received with
"For deposit only" upon receipt
of them.

- (3) Someone independent of mail receipt and deposit preparation
should verify that receipts as listed are properly deposited or
accounted for.

MR. CHRISTENSON  
PAGE 2  
APRIL 15, 1983

Person Responsible For Action: Judith Charron  
Completion Date: April 29, 1983  
Action Taken: Judith will verify on a monthly basis the receipts as listed on the deposit records with the control listing provided by mail openers.

- (4) Payroll roster and the personnel action forms should contain the written approval of the general service manager or the administrative manager to separate the responsibilities involved in processing payroll.

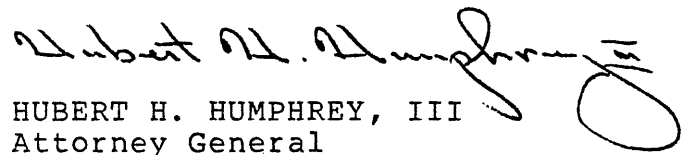
Person Responsible For Action: Joseph Reid  
Completion Date: February 9, 1983  
Action Taken: The administrative manager or the chief deputy attorney general will provide the written approval for the payroll roster and personnel action forms.

- (5) A control account for consumer civil penalties should be used to summarize all judgment balances due and reconciled to subsidy ledger sheets periodically.

Person Responsible For Action: Doug Blanke  
Completion Date: April 11, 1983  
Action Taken: A consumer civil penalties accounts receivable control account sheet proposed by the legislative auditor is being used to maintain the summary of all judgment balances due.

If you have any questions or comments, please give me a call.

Best regards,

  
HUBERT H. HUMPHREY, III  
Attorney General

AUDIT REPORT

Office of the  
STATE AUDITOR

Years Ended June 30, 1981 and 1982  
and  
Six Months Ended December 31, 1982

Operating under the State Constitution  
Article V and Minn. Stat. Chapter 6

OFFICE OF THE LEGISLATIVE AUDITOR  
FINANCIAL AUDIT DIVISION



STATE OF MINNESOTA  
OFFICE OF THE LEGISLATIVE AUDITOR  
Veterans Service Building  
St. Paul, Minnesota 55155

GERALD W. CHRISTENSON  
Legislative Auditor

(612) 296-4708

Representative Dick Welch, Chairman  
Legislative Audit Commission

and

The Honorable Arne H. Carlson  
State Auditor

We have made a financial and compliance audit of the Office of the State Auditor for the years ended June 30, 1981 and 1982, and the six months ended December 31, 1982. The audit field work was completed January 20, 1983. Our audit was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The objectives of the audit were to determine that:

- effective control is being maintained over revenues, expenditures, assets and liabilities;
- proper accounting is made for resources and operations;
- administrative practices, activities and programs are carried out in accordance with the requirements of the state constitution, applicable laws, and regulations;
- the disbursement for the personal expenses of the State Auditor were properly supported and made for a purpose related to the office; and
- the recommendations of the prior audit report were addressed.

Our audit results indicated that the Office of the State Auditor is in compliance with basic statutory requirements.

Representative Dick Welch  
and  
The Honorable Arne H. Carlson  
Page 2

We will not be making any new recommendations as a result of this audit. A summary of the progress on the audit recommendations developed during our prior audit is shown in the section entitled "Status of Prior Findings and Recommendations."

The financial statements in this report are presented for the general information of the reader only, and do not purport to represent financial position or results of operations in accordance with generally accepted accounting principles. The financial statements were not audited by us, and accordingly, we do not express an opinion on them. See Note 1 of the financial statements for an explanation of the basis of financial statement presentation. Since our audit was basically limited to the operations financed through the General Fund, the reader is referred to the audit report of the State Auditor's Revolving Fund issued by a certified public accounting firm for the years ended June 30, 1981 and June 30, 1982 for financial information pertaining to the Revolving Fund.

This audit was conducted in accordance with the policy of the Legislative Auditor to perform audits of the administrative practices of the six elected state constitutional officers as follows:

- an audit to commence not later than June 30 of the third year in office, so that a report is issued by the end of the third year in the term, and
- an audit to commence in December of the fourth year, so that a report is issued soon after the end of the term.

This schedule is not meant to preclude the Legislative Auditor from making an interim audit if deemed necessary, or as directed by the Legislature or the Legislative Audit Commission.

Thank you for your cooperation during this audit.

*Gerald W. Christenson*

Gerald W. Christenson  
Legislative Auditor

February 25, 1983

OFFICE OF THE STATE AUDITOR

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AUDIT PARTICIPATION

STAFF FROM THE OFFICE OF THE LEGISLATIVE AUDITOR

John Asmussen, CPA, Deputy Legislative Auditor  
Warren Bartz, CPA, Audit Manager  
Cecile Ebacher, CPA, Auditor-in-Charge  
Mike Hassing, Staff Auditor

The results of the audit were discussed with the following staff of the Office of the State Auditor on January 20, 1983:

Kay Johnson, Deputy State Auditor  
Elaine Barrett, Director of Audits  
Debbie Phelps, Accounting Coordinator  
Tom Gilbertson, Legal Counsel

# OFFICE OF THE STATE AUDITOR

## INTRODUCTION

The State Auditor is an independently elected constitutional officer who serves a four year term.

As a post-audit agency, the State Auditor's Office conducts financial and compliance audits of governmental subdivisions throughout the state. The agency also compiles fiscal data on governmental subdivisions and makes this information available to other state agencies, the Legislature and the public.

The operations of the State Auditor's Office are financed primarily through "fee-for-service" income generated by client billings, which is accounted for through the State Auditor's Revolving Fund. The agency also receives appropriations from the General Fund.

The scope of our audit was limited to those operations of the State Auditor's Office that were financed through the General Fund. Our review of the Revolving Fund transactions and financial statements was limited to areas that would also affect the General Fund transactions. We relied on the audit of the State Auditor's Revolving Fund for the fiscal years ended June 30, 1981 and 1982 performed by a certified public accounting firm and our review of portions of the work papers prepared during that audit engagement.

OFFICE OF THE STATE AUDITOR

EXHIBIT A

UNAUDITED, FOR INFORMATIONAL PURPOSES ONLY, SEE NOTE 1

STATEMENT OF APPROPRIATIONS, TRANSFERS, EXPENDITURES  
AND AVAILABLE BALANCE

Years Ended June 30, 1981 and 1982  
and Six Months Ended December 31, 1982

	<u>Years Ended June 30</u>		<u>Six Months</u>
	<u>1981</u>	<u>1982</u>	<u>Ended</u>
			<u>12/31/82</u>
<u>General Fund - Note 2</u>			
State Appropriations - Exhibit B	\$217,400	\$244,896	\$261,278
Appropriation Cancellations	(1,528)	(2,670)	
Transfers In:			
Salary Supplements	28,923	19,464	34,501
Legislative Advisory Commission		7,000	
Total Available	<u>\$244,795</u>	<u>\$268,690</u>	<u>\$295,779</u>
Expenditures - Note 3:			
Personal Services -			
Management	\$114,021	\$122,096	\$ 59,587
Municipal Reporting	94,681	98,257	44,358
Rents and Leases	12,325	15,558	8,046
Printing and Binding	4,038	5,058	2,721
Professional and Technical Services	362	6,000	-0-
Data Processing and Systems Services	11,404	10,183	7,476
Travel and Subsistence	1,295	4,493	3,732
Equipment and Supplies	1,228	2,575	442
Communications	2,893	1,726	245
Other	2,548	2,744	2,240
Total Expenditures	<u>\$244,795</u>	<u>\$268,690</u>	<u>\$128,847</u>
Available Balance, December 31, 1982	<u>-0-</u>	<u>-0-</u>	<u>\$166,932</u>

OFFICE OF THE STATE AUDITOR

EXHIBIT B

UNAUDITED, FOR INFORMATIONAL PURPOSES ONLY, SEE NOTE 1

SCHEDULE OF APPROPRIATIONS AND BUDGET REDUCTIONS

Years Ended June 30, 1981 and 1982  
and Six Months Ended December 31, 1982

	<u>Years Ended June 30</u>		<u>Six Months</u>
<u>General Fund</u>	<u>1981</u>	<u>1982</u>	<u>Ended</u>
			<u>12/31/82</u>
<b>Appropriations:</b>			
Laws 1979, Chapter 333, Section 11	\$217,400		
Laws 1981, Chapter 356, Section 12		\$255,400	\$258,000
<b>Appropriation Balance Carried Forward</b>			
From Fiscal Year 1982 to Fiscal			
Year 1983		(7,504)	7,504
<b>Budget Reductions:</b>			
Laws 1981, Third Special Session			
Chapter 2, Section 2, Subd. 1(h)		(3,000)	(3,000)
Laws 1982, Chapter 641, Article 1,			
Section 2, Subd. 1(j)			(1,226)
Available Appropriations -			
Exhibit A	<u>\$217,400</u>	<u>\$244,896</u>	<u>\$261,278</u>

## NOTES TO THE FINANCIAL STATEMENTS

- Note 1: The financial statements do not represent financial position or results of operations in accordance with generally accepted accounting principles. The Statewide Accounting (SWA) system reports through September 5, 1981, September 4, 1982, and December 31, 1982, were used in preparing these statements with adjustments for activity occurring subsequent to that date. Consequently, the statements were not prepared using the accrual basis of accounting.
- Note 2: The activities of the State Auditor's Revolving Fund are not included in these financial schedules. Revolving Fund information is available in the State Auditor's financial report.
- Note 3: The expenditures for the years ended June 30, 1981 and 1982 include applicable disbursements and adjustments which occurred after the Statewide Accounting System cutoff dates. Expenditures for the six months ended December 31, 1982 include encumbrances totaling \$11,314 which were related to that period's activity.

OFFICE OF THE STATE AUDITOR

STATUS OF PRIOR AUDIT RECOMMENDATIONS  
AND  
PROGRESS TOWARD IMPLEMENTATION

The State Property Inventory (SPI) listing of fixed assets has not been updated on a timely basis.

1. The State Auditor's Office should initiate the process of updating the SPI listing as soon as new assets are received.

Recommendation Implemented.

The State Auditor's time-reporting system needs improving.

2. All personnel should be required to prepare time reports, which should be approved in writing by the appropriate supervisor.

Recommendation Implemented.

AUDIT REPORT

Office of the  
GOVERNOR

Years Ended June 30, 1981 and 1982  
and  
Six Months Ended December 31, 1982

Operating under the State Constitution  
Article V and Minn. Stat. Chapter 4

OFFICE OF THE LEGISLATIVE AUDITOR  
FINANCIAL AUDIT DIVISION



STATE OF MINNESOTA  
OFFICE OF THE LEGISLATIVE AUDITOR  
Veterans Service Building  
St. Paul, Minnesota 55155

GERALD W. CHRISTENSON  
Legislative Auditor

(612) 296-4708

Representative Dick Welch, Chairman  
Legislative Audit Commission

The Honorable Albert H. Quie  
Governor of Minnesota (former)

and

The Honorable Rudy G. Perpich  
Governor of Minnesota

We have made a financial and compliance audit of the Office of the Governor for the years ended June 30, 1981 and 1982, and the six months ended December 31, 1982. The audit field work was completed March 18, 1983. Our audit was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The objectives of the audit were to determine that:

- effective control is being maintained over revenues, expenditures, assets and liabilities;
- proper accounting is made for resources and operations;
- administrative practices, activities and programs are carried out in accordance with the requirements of the state constitution, applicable laws, and regulations;
- the payments for the personal expenses of the Governor were properly supported and made for a purpose related to the office; and
- the recommendations of the prior audit report were implemented.

Our audit results indicated that the Office of the Governor is in compliance with basic statutory requirements.

Representative Dick Welch, Chairman  
The Honorable Albert H. Quie  
and  
The Honorable Rudy G. Perpich  
Page 2

The recommendations included in this report are presented to assist you in improving accounting procedures and controls. Progress on implementing these recommendations will be reviewed during our next audit. A summary of the progress on all audit recommendations developed during our prior audit is shown in the section entitled "Status of Prior Audit Recommendations and Progress Toward Implementation."

The financial statements in this report are presented for the general information of the reader only, and do not purport to represent financial position or results of operations in accordance with generally accepted accounting principles. The financial statements were not audited by us, and accordingly we do not express an opinion on them. See Note 1 of the financial statements for an explanation of the basis of financial statement presentation.

This audit was conducted in accordance with the policy of the Legislative Auditor to perform audits of the administrative practices of the six elected state constitutional officers as follows:

- an audit to commence not later than June 30 of the third year in office, so that a report is issued by the end of the third year in the term, and
- an audit to commence in December of the fourth year, so that a report is issued soon after the end of the term.

This schedule is not meant to preclude the Legislative Auditor from making an interim audit if deemed necessary, or as directed by the Legislature or the Legislative Audit Commission.

Thank you for your cooperation during this audit.

*Gerald W. Christenson*

Gerald W. Christenson  
Legislative Auditor

May 13, 1983

OFFICE OF THE GOVERNOR

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AUDIT PARTICIPATION

STAFF FROM THE OFFICE OF THE LEGISLATIVE AUDITOR

John Asmussen, CPA, Deputy Legislative Auditor  
Warren Bartz, CPA, Audit Manager  
Judith Hunt, CPA, Auditor-in-Charge  
Tony Toscano, Staff Auditor  
Brad White, Staff Auditor

EXIT CONFERENCE

The findings and recommendations in this report were discussed with:

Members of Governor Quie's staff on March 16, 1983 --

Carolyn Ring, Director of Internal Management  
John Pemble, Accounting Coordinator,  
Department of Administration

and

Members of Governor Perpich's staff on March 18, 1983 --

Terry Montgomery, Chief of Staff  
Lynn Anderson, Deputy Chief of Staff  
John Pemble, Accounting Coordinator,  
Department of Administration

# OFFICE OF THE GOVERNOR

## INTRODUCTION

The Office of the Governor was established as part of the executive department of state government by the Constitution of the State of Minnesota. The voters of the state elect the Governor who serves a four year term.

The scope of our audit included the following programs:

- Executive operations, which concern the funding required for the Governor as chief executive to conduct the business associated with the office (this program also included funding through October 1980 for the Washington liaison office whose purpose was to provide services to the executive and legislative branches of Minnesota state government);
- Interstate representation and cooperation, which is concerned with Minnesota's representation in national and regional advisory meetings and commissions; and
- Commissions and task forces, which provide a center for creating temporary commissions and task forces to study problems and make specific recommendations to the Governor.

The Upper Great Lake Regional Commission was included as an activity within the interstate representation and cooperation program after it was transferred to the Governor's Office from the Department of Economic Development by Reorganization Order No. 99 dated February 8, 1979. Since the Upper Great Lakes Technical Assistance Project No. 10920418 and No. 10020459 were audited by a certified public accounting firm for the grant periods from October 1, 1978 through September 30, 1980 and from October 1,

OFFICE OF THE GOVERNOR

1979 through September 30, 1981, respectively, our audit work emphasized activity to date within the following Upper Great Lakes Technical Assistance Projects:

<u>Project Number</u>	<u>Grant Period</u>
10120500	October 1, 1980 - June 30, 1982
10120513	October 1, 1981 - June 30, 1983
10120514	October 1, 1981 - June 30, 1983

The activities of the Governor's Office are financed through appropriations from the General Fund and federal grants. However, we did not include federal revenue sharing receipts totaling \$11,388,520 for the year ended June 30, 1981 as a part of this audit. We audited those receipts during our statewide financial audit for the year ended June 30, 1981.

OFFICE OF THE GOVERNOR

CURRENT FINDINGS AND RECOMMENDATIONS

PRIOR RECOMMENDATION PARTIALLY IMPLEMENTED: Protective measures are needed to safeguard sensitive communications equipment and consumable office supplies.

Personnel of the Office of the Governor maintained all consumable office supplies in an open lower level storage room. They also kept the sensitive communications equipment, i.e., cameras and tape recorders, in several places including a storage closet, a credenza, and the soundroom. In each of these locations, these assets were easily accessible to unauthorized personnel.

Unless the office supplies and communications equipment are adequately protected, they can be stolen, misused, or accidentally destroyed. One physical precaution which we recommended in our prior audit report dated June 23, 1981 was the use of sign-out sheets for frequently used communications equipment. In response to this recommendation, Lieutenant Governor Lou Wangberg informed us that a staff member in the press section of the Governor's Office would maintain sign-out sheets to account for these assets. However, throughout calendar year 1982, Governor's Office personnel did not utilize these sheets, because we were told they did not have sufficient time to record the necessary information on a sheet. Without sign-out sheets, there is no way to determine the last employee responsible for these assets.

Another protective measure is to keep these assets in locked storage areas with the key being the responsibility of one individual. This limits access to authorized personnel only.

RECOMMENDATIONS:

1. To ensure the physical control of the sensitive communications equipment, employees should maintain sign-out sheets for these frequently used assets. As a minimum, each sheet should indicate the name of the equipment, the name of the employee using the equipment, and the dates the equipment was taken and returned.
2. To prevent access to the consumable office supplies and sensitive communications equipment by unauthorized personnel, the storage areas for these goods should be locked at all times and the key should be the responsibility of one individual.

PRIOR RECOMMENDATION NOT IMPLEMENTED: The State Property Inventory (SPI) listing was not updated for all fixed asset additions and deletions on a timely basis.

In our report dated June 23, 1981, we stated that fixed assets reported missing in December 1979 were not removed from the SPI listing by the

OFFICE OF THE GOVERNOR

following year and not all fixed assets purchased between January 1979 and June 1980 appeared on the December 31, 1980 SPI listing. We recommended that personnel in the Governor's Office should take adequate measures to ensure the timely updating of the SPI listing. In response to this recommendation, Lieutenant Governor Lou Wangberg informed us that the accounting coordinator for the Office of the Governor would assist with annual physical inventories and conduct periodic test checks to ensure that the fixed asset inventory record is maintained on a timely basis.

During our examination of the Department of Administration's SPI records for the Governor's Office, we observed the Governor's accounting coordinator assisting with a physical inventory of fixed assets for the 1982 calendar year-end. However, our testing showed the following:

- 17 of 26 assets purchased during the audit period were not entered into the Statewide Fixed Asset Inventory System (SWFAIS) until two weeks to eleven months after they were acquired;
- a video cassette recorder was not deleted from the SWFAIS until three months after its theft; and
- an IBM memory module (word processor), received in July 1982 was shown on the December 31, 1982 SPI listing with a cost of \$4,210 which did not include the costs of two components, a display and a keyboard, totalling \$685.

The timely entering of fixed asset additions and deletions into the SWFAIS is essential to promote the accuracy of the SPI listing. Annual physical inventories and periodic spot-checks help to detect if assets are on the SPI listing and if the updating of this fixed asset inventory record is on a timely basis.

RECOMMENDATIONS:

3. All fixed asset additions and deletions should be entered into the Statewide Fixed Asset Inventory System (SWFAIS) shortly after their receipt or disposition, respectively.
4. The staff member responsible for fixed asset movements should take appropriate action to add the costs of the two components of the word processor, the display and the keyboard, to the SWFAIS.

Documentation for payments made from the Governor's personal expense account was inadequate.

The 1979 and 1981 Laws of Minnesota permit the Governor to use \$15,000 of appropriated funds in fiscal years 1980 through 1983 to pay for certain expenses when conducting official state business or when honoring individuals for their achievements. Examples of these expenses include the costs of meals, trophies and flowers. However, they generally do not include the

## OFFICE OF THE GOVERNOR

cost of items that will singularly benefit the Governor. The personal expenses of the Governor are paid through an imprest cash account established with a local bank.

In our examination of 50 expenditures made during the audit period, we found 17 instances where the documentation did not contain a statement indicating the purpose or participants of a meeting or similar event. At our request, however, the Governor's personal secretary provided a written explanation necessary for each expenditure. Adequate documentation of expenditures made from the Governor's personal expense account is essential to determine if they are for a public purpose. Without sufficient documentation for each expenditure, there is no way to determine the propriety of the expenditures, which must withstand any test of public scrutiny.

### RECOMMENDATION:

5. Staff of the Governor's Office should specifically provide, on the invoice or other documentation supporting each payment from the Governor's personal expense account, all information necessary to determine whether the expenditure is for a public purpose. This information includes the purpose and participants of business meetings or other similar events.

### Procedures to verify the accuracy of amounts billed by the Minnesota Department of Transportation (MN/DOT) for air travel need to be improved.

When the Governor flies to another location within the state of Minnesota for official business, he generally requests the use of aircraft provided by MN/DOT. The current cost of this air transportation is \$1.25 for each air mile flown. However, if employees from more than one department take the same flight, the total cost is prorated by the number of passengers from each cost center.

In our examination of payments to MN/DOT for air transportation, we found that the Governor's staff did not recalculate the total amounts billed on two of three of the invoices we tested. Our calculations indicated that the Governor's Office was underbilled \$178 on one invoice and overbilled \$63 on the other.

Good internal accounting control requires double-checking MN/DOT's computations prior to authorizing payment for the services rendered. This verification is necessary to ensure that the Governor's Office is properly billed for the proportionate share of the air transportation costs.

### RECOMMENDATION:

6. The Governor's office personnel should recalculate the total amount due to MN/DOT for the use of aircraft before payment is approved.

OFFICE OF THE GOVERNOR

Department of Administration personnel working for the Governor's Office did not reconcile deposit slips to the Statewide Accounting (SWA) detail receipt reports.

Revenue for the Governor's Office was received at two separate locations during the audit period. Employees in both the Governor's Office and the Fiscal Services Division of the Department of Administration maintained separate cash receipt registers. The Governor's Office receipt register listed only the funds received directly by that office. However, the Fiscal Services receipt register listed both cash received directly by the division and all of the Governor's Office receipts which were sent to the division for immediate deposit into the state treasury.

Department of Finance Operating Policy and Procedure 06:06:03 requires that agencies reconcile deposit slips each month to monthly SWA receipt reports. In addition, the Governor's Office policies and procedures require that a third party, who does not receive cash or deposit receipts, complete these reconciliations. Office procedures further state that this third party provide a positive response to certify the deposit transaction by indicating the deposit date and number in the receipt register and initialing it.

In our examination of receipts during the audit period, we found that a Fiscal Services employee reconciled deposit slips to the SWA detail receipt reports for fiscal year 1982. However, there were no indications on the SWA receipt reports or in the receipt registers to indicate that an employee also completed monthly cash reconciliations for fiscal year 1981 and the first one-half of fiscal year 1983.

The failure to reconcile at least monthly creates a major weakness in the internal control over receipts. Errors could go undetected and the Office would have no assurance that it is being credited with all the monies that were deposited. Receipts could be lost or stolen and the Office would not be aware of the loss.

RECOMMENDATION:

7. In accordance with Department of Finance Operating Policy and Procedure 06:06:03, someone other than the staff who receive cash and who prepare and authorize the deposit slips, should reconcile the deposit slips with the amounts reported in the receipts by deposit or the receipts by appropriation reports each month. If formal reconciliations are not prepared, there should be positive responses on the SWA receipt reports or receipt registers to indicate that the reconciliations were done.

The source documents for federal money received by the Governor's Office and Technical Assistance Project expenditures need to be reconciled to various SWA detail reports.

The Upper Great Lakes Regional Commission (UGLRC) is a local-state-federal partnership for the economic development of northern Michigan, Minnesota, and Wisconsin. During the audit period, the UGLRC located in Duluth,

## OFFICE OF THE GOVERNOR

Minnesota funded research and demonstration projects of regional impact with federal monies through its technical assistance grant program.

Federal guidelines require that the UGLRG prepare "Quarterly Financial and Progress Reports for Technical Assistance Projects" and submit them to the Federal Upper Great Lakes Regional Office in Washington, D.C. The staff in the UGLRC Duluth office obtain this necessary financial information from reports generated by the SWA system.

However, UGLRC staff do not verify the accuracy of the financial data summarized on the SWA reports as follows:

- Total amounts reported on the SWA reports are not compared to total supporting "Outlay Report(s) and Request(s) for Payment of Technical Assistance."
- The total amounts reported on the SWA expenditure by AID reports are not compared to total vendor invoices.
- The total unliquidated appropriation account balance reported on the SWA allotment balance within appropriation report is not reconciled to the difference between receipts and disbursements reported on the source documents.

Without a reconciliation of source documents to SWA records, there is no assurance that the SWA activity reports summarize receipts and disbursements properly. Receipt or disbursement transactions could be left unprocessed on the SWA system and not be detected.

### RECOMMENDATION:

8. To ensure accuracy of financial data reported on the SWA system, someone other than the accounting coordinator within the Governor's Office should reconcile receipts to total supporting "Outlay Report(s) and Request(s) for Payment for Technical Assistance," and disbursements to total vendor invoices for each technical assistance project. This person should also verify that the difference between the two totals for each project agrees with the unliquidated appropriation account balance on the SWA system.

The internal control procedures concerning the personnel and payroll process need to be strengthened.

Salary expenditures of the Governor's Office totalled \$2,843,373 and comprised 72 percent of all operating expenses from July 1, 1980 through December 31, 1982.

In our review of the payroll and personnel areas, we noted certain weaknesses as discussed below. Taken together, these weaknesses lessened the reliance which could be placed upon the payroll system.

OFFICE OF THE GOVERNOR

A. Delegation of Authority

The Department of Finance's Operating Policy and Procedure 06:01:02 requires any change or deletion of a previously issued delegation of authority to be reported to the Secretary of State and the Department of Finance.

The delegation of authority specifies the employees who are involved in the preparation and the authorization of the payroll. The delegation currently on file did not list the names of individuals who assumed these responsibilities from employees who resigned during the audit period. Reporting these changes is necessary to ensure that only authorized employees approve accounting and budgeting forms.

B. Advanced Leave

For four pay periods during 1980, an employee was advanced annual leave exceeding the 40 hour maximum specified in the compensation plan effective through June 30, 1981. Although this employee eventually eliminated the negative leave balance by February 1981, he should have been required to take time off without pay for any hours beyond the 40 hour maximum. The revised compensation plan effective through December 31, 1982, did not allow a staff member to be advanced annual or sick leave.

RECOMMENDATIONS:

9. In accordance with Department of Finance Operating Policy and Procedure 06:01:02, the Director of Internal Management, or similar position, in the Governor's Office should report any changes or deletions in the previously issued delegation of authority which specifies personnel involved in the preparation and authorization of the payroll to the Secretary of State and the Department of Finance.
10. When the compensation plan for the Office of the Governor allows a staff member to be advanced vacation or sick leave, the amount advanced should not exceed the maximum amount specified within the plan.

OFFICE OF THE GOVERNOR

EXHIBIT A

UNAUDITED, FOR INFORMATIONAL PURPOSES ONLY, SEE NOTE 1

STATEMENT OF APPROPRIATIONS, TRANSFERS, EXPENDITURES  
AND AVAILABLE BALANCE  
Years Ended June 30, 1981 and 1982,  
and Six Months Ended December 31, 1982

<u>General Fund</u>	<u>Years Ended June 30</u>		<u>Six Months Ended 12/31/82</u>
	<u>1981</u>	<u>1982</u>	
State Appropriations - Exhibit B	\$1,416,003	\$1,259,400	\$1,271,933
Appropriation Cancellations	(182,584)	(10,207)	
Transfers In:			
Salary Supplements	188,888	94,784	142,907
Northeast Minnesota Economic Protection Trust Fund Adminis- trative Expenses			8,250
Transfers Out:			
Task Force on Educational Policy	(76,200)		
Receipts from Sale of Usable Equipment		1,821	
Total Available	<u>\$1,346,107</u>	<u>\$1,345,798</u>	<u>\$1,423,090</u>
Expenditures - Note 2:			
Personal Services	\$1,007,859	\$1,033,547	\$ 527,255
Rents and Leases	66,073	73,133	27,836
Personal Expenses of the Governor	10,901	13,282	8,340
Printing and Binding	15,581	18,764	6,091
Purchased Services	9,850	9,433	1,308
Communications	49,473	66,292	30,488
Travel and Subsistence	22,742	23,233	20,469
Supplies and Materials	9,709	11,684	5,146
Equipment	200	9,357	2,085
Grants To:			
Great Lakes Basin Commission	22,300	5,575	
Upper Great Lakes Minnesota Membership	36,667		
Upper Mississippi Basin Commission	49,500	24,750	
National Governors Conference	34,500	50,600	50,600
Governor's Portrait	5,000		
Other	5,752	6,148	8,847
Total Expenditures	<u>\$1,346,107</u>	<u>\$1,345,798</u>	<u>\$ 688,465</u>
Available Balance, December 31, 1982	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 734,625</u>
 <u>Special Revenue Fund</u>			
Revenue:			
Receipts from Governor's Issue Forum Registrations - Exhibit C		\$ 5,540	\$ 10,306
Less: Balance Carried Forward from Fiscal Year 1982 to Fiscal Year 1983		(286)	286
Total Available		<u>\$ 5,254</u>	<u>\$ 10,592</u>

## OFFICE OF THE GOVERNOR

EXHIBIT A  
(con't)

<u>Special Revenue Fund</u>	<u>Years Ended June 30</u>		<u>Six Months</u>
	<u>1981</u>	<u>1982</u>	<u>Ended</u>
			<u>12/31/82</u>
<b>Expenditures:</b>			
Governor's Issue Forums -			
Purchased Services		\$ 5,254	\$ 9,459
Contractual Services - Speakers			650
Total Expenditures		\$ 5,254	\$ 10,109
Available Balance December 31, 1982 - Note 3		\$ -0-	\$ 483
 <u>Federal Fund</u>			
Revenue - Exhibit C	\$ 213,719	\$ 345,096	\$ 102,400
Balance Carried Forward:			
From Fiscal Year 1980 to			
Fiscal Year 1981	19,102		
From Fiscal Year 1981 to			
Fiscal Year 1982	(55,944)	55,944	
From Fiscal Year 1982 to			
Fiscal Year 1983		(123,100)	123,100
Transfers In:			
Advance Funding From Other Grants	13,624	17,500	
Return of Funds Advanced to			
Other Grants		13,624	
Funding for Chemical Dependency			
Programs		37,813	
Transfers Out:			
Upper Great Lake Regional Commission	(55,296)		
Advance Funding to Other Grants	(13,624)	(17,500)	
Repayment of Advances Received		(13,624)	
Total Available	\$ 121,581	\$ 315,753	\$ 225,500
 <b>Expenditures - Note 2:</b>			
Personal Services	\$ 91,583	\$ 139,369	\$ 40,028
Purchased Services	1,231	942	45,931
Contractual Services	293	14,598	6,143
Rents and Leases	8,537	9,702	4,420
Communications	3,033	4,091	1,814
Travel and Subsistence	12,993	12,293	5,924
Supplies and Materials	1,449	2,287	1,080
Grants to Upper Great Lakes			
Regional Commission		127,175	
Other	2,462	5,296	1,274
Total Expenditures	\$ 121,581	\$ 315,753	\$ 106,614
Available Balance - December 31, 1982	\$ -0-	\$ -0-	\$ 118,886

OFFICE OF THE GOVERNOR

EXHIBIT A  
(con't)

<u>Gifts and Deposits Fund</u>	<u>Years Ended June 30</u>		<u>Six Months</u>
	<u>1981</u>	<u>1982</u>	<u>Ended</u>
			<u>12/31/82</u>
Revenue - Exhibit C		\$ 33,575	\$ 2,655
Balance Carried Forward:			
From Fiscal Year 1982 to			
Fiscal Year 1983		(24,869)	24,869
Transfers Out:			
Transfer of Balance to Minnesota			
Council on Health Promotion and			
Wellness			(23,669)
Total Available		\$ <u>8,706</u>	\$ <u>3,855</u>
Expenditures - Note 2:			
Personal Services		\$ 3,732	
Rents and Leases		1,965	
Printing and Binding		1,460	
Other		<u>1,549</u>	\$ <u>1,725</u>
Total Expenditures		\$ <u>8,706</u>	\$ <u>1,725</u>
Available Balance - December 31, 1982		\$ <u>-0-</u>	\$ <u>2,130</u>

## OFFICE OF THE GOVERNOR

EXHIBIT B

UNAUDITED, FOR INFORMATIONAL PURPOSES ONLY, SEE NOTE 1

## SCHEDULE OF APPROPRIATIONS AND BUDGET REDUCTIONS

Years Ended June 30, 1981 and 1982,  
and Six Months Ended December 31, 1982

<u>General Fund</u>	<u>Years Ended June 30</u>		<u>Six Months</u>
	<u>1981</u>	<u>1982</u>	<u>Ended</u>
			<u>12/31/82</u>
Appropriations - Note 4:			
Laws 1979, Chapter 333, Section 9	\$1,384,003		
Laws 1980, Chapter 614, Section 4	32,000		
Laws 1981, Chapter 356, Section 10		\$1,454,600	\$1,478,800
Appropriation Balance Carried Forward From Fiscal Year 1982 to Fiscal Year 1983		(20,000)	20,000
Budget Reductions:			
Laws 1981, Third Special Session Chapter 2, Article I, Section 2, Subd. 1(f)		(175,200)	(218,700)
Laws 1982, Chapter 641, Article I, Section 2, Subd. 1(j)			(8,167)
Available Appropriations - Exhibit A	<u>\$1,416,003</u>	<u>\$1,259,400</u>	<u>\$1,271,933</u>

OFFICE OF THE GOVERNOR

EXHIBIT C

UNAUDITED, FOR INFORMATIONAL PURPOSES ONLY, SEE NOTE 1

STATEMENT OF REVENUES DEPOSITED WITH THE STATE TREASURER  
 Years Ended June 30, 1981 and 1982,  
 and Six Months Ended December 31, 1982

	<u>Years Ended June 30</u>		<u>Six Months Ended 12/31/82</u>
	<u>1981</u>	<u>1982</u>	
<u>General Fund - Note 5</u>			
Sale of Usable Equipment	\$ 185	\$ 1,821	
Prior Year Expenditure Refund	82	60	\$ 80
Other Reimbursements	<u>1,850</u>	<u>50</u>	<u>98</u>
Total General Fund	<u>\$ 2,117</u>	<u>\$ 1,931</u>	<u>\$ 178</u>
 <u>Special Revenue Fund</u>			
Governor's Issue Forum Registrations		\$ 5,560	\$ 10,376
Less: Revenue Refunds		<u>(20)</u>	<u>(70)</u>
Total Special Revenue Fund - Exhibit A		<u>\$ 5,540</u>	<u>\$ 10,306</u>
 <u>Federal Fund - Note 6</u>			
Intergovernmental Revenue:			
Upper Great Lakes Regional Development Administration Grant:			
Fiscal Year 1979	\$ 3,348		
Fiscal Year 1980	52,500	\$ 17,424	
Fiscal Year 1981	157,500		
Closing Grants		327,600	\$ 104,400
Prior Year Expenditure Refunds	319	72	
Other Reimbursement	<u>52</u>		
Gross Federal Fund Revenues	\$ 213,719	\$ 345,096	\$ 104,400
Less: Revenue Refunds			<u>(2,000)</u>
Total Federal Fund - Exhibit A	<u>\$ 213,719</u>	<u>\$ 345,096</u>	<u>\$ 102,400</u>
 <u>Gifts and Deposits Fund</u>			
Gifts and Donations For:			
Council On Health Promotion		\$ 31,866	
Council On Quality Environment		1,200	\$ 655
Governor's Issue Forums			2,000
Interest on Investment		<u>509</u>	
Total Gifts and Deposits Fund - Exhibit A		<u>\$ 33,575</u>	<u>\$ 2,655</u>

## NOTES TO THE FINANCIAL STATEMENTS

Note 1: The financial statements do not represent financial position or results of operations in accordance with generally accepted accounting principles. The Statewide Accounting (SWA) system reports through September 5, 1981, September 4, 1982, and December 31, 1982, were used in preparing these statements with adjustments for activity occurring subsequent to that date. Consequently, the statements were not prepared using the accrual basis of accounting.

Note 2: The expenditures for the years ended June 30, 1981 and 1982 include applicable disbursements and adjustments which occurred after the Statewide Accounting system cutoff dates. Expenditures for the six months ended December 31, 1982 include the following encumbrances which were related to that period's activity:

General Fund	\$63,157
Federal Fund	19,650
Gifts and Deposits Fund	<u>1,596</u>
Total Encumbrances	<u>\$84,403</u>

Note 3: With the change in administration on January 3, 1983, the Governor's Issue Forums were discontinued. The available balance at December 31, 1982 will be used to pay any remaining expenditures related to the Governor's Issue Forums. Any unexpended balance in the Special Revenue Fund will be transferred to the General Fund at June 30, 1983.

Note 4: The appropriations for the Lieutenant Governor for the years ended June 30, 1982 and 1983 were included with those for the Governor. Therefore, the budget reductions included in Laws 1981 and Laws 1982 were applied only to the Governor's appropriations.

Note 5: Except for \$1,821 in the year ended June 30, 1982, the revenue deposited to the credit of the General Fund is nondedicated and does not increase the available appropriations.

Note 6: Federal Revenue Sharing payments to states were discontinued during fiscal year 1981. During the first quarter, \$11,388,520 was received.

OFFICE OF THE GOVERNOR

STATUS OF PRIOR AUDIT RECOMMENDATIONS  
AND  
PROGRESS TOWARD IMPLEMENTATION

Control over fixed assets needs to be improved.

1. More effort should be made to locate the 21 missing assets.

Recommendation Implemented.

2. The stolen, lost or damaged property report (administration form 782) should be filed promptly with the materials management division of the Department of Administration and with the Office of the Legislative Auditor upon discovery of lost, stolen or damaged property.

Recommendation Implemented.

3. One individual within the Governor's Office should be assigned the responsibility of accounting for fixed asset movements, using procedures such as sign-out sheets for frequently used assets, to ensure proper control over fixed assets.

Recommendation Partially Implemented. The responsibility for managing the fixed asset inventory record was assigned to the purchasing agent in the Governor's Office. Our testing also indicated that the purchasing agent effectively shared this responsibility with the agency accounting coordinator. However, throughout calendar year 1982, staff of the Governor's Office did not utilize sign-out sheets for sensitive communications equipment. See current recommendation #1.

4. Adequate measures should be taken to ensure the timely updating of the SPI listing for all additions and deletions.

RECOMMENDATION NOT IMPLEMENTED. See current recommendation #3.

During fiscal year 1980, the Governor's Office was not in compliance with the Department of Finance procedures which require that a request for local purchase authority be submitted to the Department of Administration, procurement division, for authorization.

5. The Governor's Office should continue to file its request for local purchase authority with the procurement division to be assured that its privilege of encumbering funds for local purchases will be continued.

Recommendation Implemented.

OFFICE OF THE GOVERNOR

Duties between the purchasing and receiving functions are not separated.

6. If practical in the small operation of the Governor's Office, an individual independent of purchasing and disbursing functions should be responsible for receiving incoming merchandise. A form showing receipt of the goods should be signed by the designated individual.

Recommendation Implemented.

Governor's Office employees do not consistently record daily hours worked on their biweekly time reports.

7. All personnel should report daily hours worked or leave taken to support the hours shown as paid on their biweekly time sheet.

Recommendation Implemented.

Internal control over the Governor's personal expense account needs strengthening.

8. A person not responsible for the personal expense account should reconcile the checkbook balance to the bank statement balance (the bank statement should be received by this individual unopened) and review payments for compliance with established policy.

Recommendation Implemented.

Improvements are needed in the procedures used to control receipts.

9. The Governor's Office receipts sent directly to the Department of Administration's fiscal services section should continue to be recorded in a receipt register before deposit, as is currently being done. The receipts should be listed in a separate register or be clearly marked for easy identification within the fiscal services receipt register.

Recommendation Implemented.

ALBERT H. QUIE

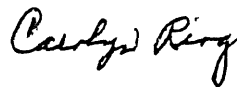
May 12, 1983

Gerald W. Christenson  
Legislative Auditor  
State of Minnesota  
Office of the Legislative Auditor  
Veterans Service Building  
St. Paul, MN 55155

Dear Mr. Christenson:

Enclosed is the detailed response to the audit of the  
Governor's Office for the period of time from July 1, 1980  
through December 31, 1983.

Sincerely,



Carolyn Ring  
Executive Assistant to  
Governor Albert H. Quie

GOVERNOR'S OFFICE

RESPONSES TO CURRENT FINDINGS AND RECOMMENDATIONS

Recommendation

1. To ensure the physical control of the sensitive communications equipment, employees should maintain sign-out sheets for these frequently used assets. As a minimum, each sheet should indicate the name of the equipment, the name of the employee using the equipment, and the dates the equipment was taken and returned.

Response

An inventory sign-out sheet is not an easy system to manage with the other demands on the press section. We feel that it is more appropriate to assign equipment to an individual who is the primary user of the equipment and, in turn, be accountable for the dispersion and retrieval of these items.

Recommendation

2. To prevent access to the consumable office supplies and sensitive communications equipment by unauthorized personnel, the storage areas for these goods should be locked at all times and the key should be the responsibility of one individual.

Response

We did not feel that one person should be interrupted to distribute supplies. The Governor's Office is a small staff of responsible people and it seems more reasonable to limit the inventory of expendable supplies and make them available to the staff as needed.

Recommendation

3. All fixed asset additions and deletions should be entered into the Statewide Fixed Asset Inventory System (SWFAIS) shortly after their receipt or disposition, respectively.

Response

As a result of our efforts to reduce staff for budget savings, our inventory management program depended upon the accounting coordinator to up-date the inventory record at the end of each calendar year. Although this resulted in a delay in up-dating the Statewide Inventory System, we maintained good control of the fixed assets assigned to the Governor's Office. Out of 555 fixed assets we located all but 8 on December 31, 1982.

Recommendation

4. The staff member responsible for fixed asset movements should take appropriate action to add the costs of the two components of the word processor, the display and the keyboard, to the SWFAIS.

Response

The word processing equipment consisted of several components. Because of budget limitations, some components were leased and not part of our inventory. The costs of components purchased were not easily identified and, therefore, only the costs of major items were listed.

Recommendation

5. Staff of the Governor's Office should specifically provide, on the invoice or other documentation supporting each payment from the Governor's personal expense account, all information necessary to determine whether the expenditure is for a public purpose. This information includes the purpose and participants of business meetings or other similar events.

Response

We felt that the records were accurate and complete for the Governor's personal expense account and documentation existed to support the fact that all expenditures were for public purposes. We recognize that records were kept in more than one place and that it would be preferable to keep them together.

Recommendation

6. The Governor's office personnel should recalculate the total amount due to MN/DOT for the use of aircraft before payment is approved.

Response

Information provided on DOT/MN invoices was not adequate for us to double check calculations and, therefore, we relied on the internal audit system of DOT/MN to assure that invoices were accurate.

Recommendation

7. In accordance with Department of Finance Operating Policy and Procedure 06:06:03, someone other than the staff who receive cash and who prepare and authorize the deposit slips, should reconcile the deposit slips with the amounts reported in the receipts by deposit or the receipts by appropriation reports each month. If formal reconciliations done.

Response

Our intent was to always have a third person reconcile receipts with monthly deposit reports. Where the volume of receipts was substantial there was a formal reconciliation. The Governor's Office generally does not receive checks and, therefore, a receipt record was seldom needed.

Recommendation

8. To ensure accuracy of financial data reported on the SWA system, someone other than the accounting coordinator within the Governor's Office should reconcile receipts to total supporting "Outlay Report(s) and Request(s) for Payment for Technical Assistance," and disbursements to total vendor invoices for each technical assistance project. This person should also verify that the difference between the two totals for each project agrees with the unliquidated appropriation account balance on the SWA system.

Response

The UGLRC closeout grants are audited by an independent CPA firm. The staff assistant in the Duluth Office always received SWA reports and met with the accounting coordinator regularly to verify the accuracy of the reports and the expenditure report was reviewed.

Recommendation

9. In accordance with Department of Finance Operating Policy and Procedure 06:01:02, the Director of Internal Management, or similar position, in the Governor's Office should report any changes or deletions in the previously issued delegation of authority which specifies personnel involved in the preparation and authorization of the payroll to the Secretary of State and the Department of Finance.

Response

There was no change in the employees authorized to approve the payroll. The current Employee Relations Authorized Signature form does not require the name of the person preparing the payroll.

Recommendation

10. When the compensation plan for the Office of the Governor allows a staff member to be advanced vacation or sick leave, the amount advanced should not exceed the maximum amount specified within the plan.

Response

The compensation plan was changed and advanced annual leave was no longer allowed.



RUDY PERPICH  
GOVERNOR

# STATE OF MINNESOTA

OFFICE OF THE GOVERNOR

ST. PAUL 55155

May 13, 1983

Gerald W. Christenson  
Legislative Auditor  
State of Minnesota  
Office of the Legislative Auditor  
Veterans Service Building  
St. Paul, Minnesota 55155

Dear Mr. Christenson:

Enclosed is the detailed response to the audit of the Governor's Office for the period of time from July 1, 1980 through December 31, 1983.

Sincerely,

A handwritten signature in cursive script that reads "Terry Montgomery".

Terry Montgomery  
Chief of Staff

TPM:kje

Enclosure

GOVERNOR'S OFFICE  
RESPONSES TO CURRENT FINDINGS AND RECOMMENDATIONS

Recommendation

1. To ensure the physical control of the sensitive communications equipment, employees should maintain sign-out sheets for these frequently used assets. As a minimum, each sheet should indicate the name of the equipment, the name of the employee using the equipment, and the dates the equipment was taken and returned.

Response

Sensitive communications equipment has been assigned to one individual who is accountable for it at all times.

Recommendation

2. To prevent access to the consumable office supplies and sensitive communications equipment by unauthorized personnel, the storage areas for these goods should be locked at all times and the key should be the responsibility of one individual.

Response

2. Sensitive communications equipment is locked in a secure place when it is not being used. The inventory of expendable supplies is kept at minimal levels so that it can be closely monitored, and yet staff can still be permitted access to supplies as needed.

Recommendation

3. All fixed asset additions and deletions should be entered into the Statewide Fixed Asset Inventory System (SWFAIS) shortly after their receipt or disposition, respectively.

Response

A staff member has been trained by Inventory Management in the transaction procedures for the Statewide Fixed Asset Inventory Management System. Although some processing delays are expected during our first six months of office, we expect to have all transactions processed on a timely basis beginning July 1, 1983.

Recommendation

4. The staff-member responsible for fixed asset movements should take appropriate action to add the costs of the two components of the word processor, the display and the keyboard, to the SWFAIS.

Response

Our staff inventory coordinator has prepared the necessary paperwork to amend the recorded cost of the word processor components.

Recommendation

5. Staff of the Governor's Office should specifically provide, on the invoice or other documentation supporting each payment from the Governor's personal expense account, all information necessary to determine whether the expenditure is for a public purpose. This information includes the purpose and participants of business meetings or other similar events.

Response

Complete documentation is being attached to the invoices for all expenditures from the Governor's personal expense account.

Recommendation

6. The Governor's office personnel should recalculate the total amount due to Mn/DOT for the use of aircraft before payment is approved.

Response

The accounting coordinator verifies the calculations of all Mn/DOT aircraft invoices. Mn/DOT is notified if adequate information is not provided.

Recommendation

7. In accordance with Department of Finance Operating Policy and Procedure 06:06:03, someone other than the staff who receive cash and who prepare and authorize the deposit slips, should reconcile the deposit slips with the amounts reported in the receipts by deposit or the receipts by appropriation reports each month. If formal reconciliations are not prepared, there should be positive responses on the SWA receipt or receipt registers to indicate that the reconciliations were done.

Response

Although state funds have not been received in our office, we do have a receipt register established and will have a third person reconcile the receipts to SWA reports on a timely basis.

Recommendation

8. To ensure accuracy of financial data reported on the SWA system, someone other than the accounting coordinator within the Governor's office should reconcile receipts to total supporting "Outlay Report(s) and Request(s) for Payment for Technical Assistance," and disbursements to total vendor invoices for each technical assistance project. This person should also verify that the difference between the two totals for each project agrees with the unliquidated appropriation account balance on the SWA system.

Response

We recognize the importance of verifying the accuracy of SWA reports. Our accounting coordinator has provided assistance for interpreting the reports and distributes them to activity managers on a timely basis.

Special attention has been given to monitoring the receipts and expenditures of the UGLRC close-out grants. Both grants terminate June 30, 1983, and our accounting coordinator is directly involved in accounting for the fiscal activity as part of the terms and conditions of these grants.

Recommendation

9. In accordance with Department of Finance Operating Policy and Procedure 06:01:02, the Director of Internal Management, or similar position, in the Governor's Office should report any changes or deletions in the previously issued delegation of authority which specifies personnel involved in the preparation and authorization of the payroll to the Secretary of State and the Department of Finance.

Response

We have filed authorized signatures with the Secretary of State for the delegated administrative activities of the office.

Recommendation

10. When the compensation plan for the Office of the Governor allows a staff member to be advanced vacation or sick leave, the amount advanced should not exceed the maximum amount specified within the plan.

Response

We do not allow advanced annual leave in our compensation plan and have been provided administrative support from Fiscal Services Division for monitoring all leave records.

AUDIT REPORT

Office of the  
LIEUTENANT GOVERNOR

Years Ended June 30, 1981 and 1982  
and  
Six Months Ended December 31, 1982

Operating under the State Constitution  
Article V, Sections 1, 2, 5 and 6, and  
Minn. Stat. Chapter 4, Section 4, Subd. 2

OFFICE OF THE LEGISLATIVE AUDITOR  
FINANCIAL AUDIT DIVISION



STATE OF MINNESOTA  
OFFICE OF THE LEGISLATIVE AUDITOR

Veterans Service Building  
St. Paul, Minnesota 55155

GERALD W. CHRISTENSON  
Legislative Auditor

(612) 296-4708

Representative Dick Welch, Chairman  
Legislative Audit Commission

The Honorable Lou Wangberg  
Lieutenant Governor (former)

and

The Honorable Marlene Johnson  
Lieutenant Governor

We have made a financial and compliance audit of the Office of the Lieutenant Governor for the years ended June 30, 1981 and 1982 and the six months ended December 31, 1982. The audit field work was completed on March 18, 1983. Our audit was conducted in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The objectives of the audit were to determine that:

- effective control is being maintained over revenues, expenditures, assets and liabilities;
- proper accounting is made for resources and operations;
- administrative practices, activities and programs are carried out in accordance with the requirements of the state constitution, applicable laws and regulations;
- the payments for the personal expenses of the Lieutenant Governor were properly supported and made for a purpose related to the office; and
- the recommendations of the prior audit report were implemented.

Our audit results indicated that the Office of the Lieutenant Governor is in compliance with basic statutory requirements.

Representative Dick Welch, Chairman  
The Honorable Lou Wangberg  
and  
The Honorable Marlene Johnson  
Page 2

The recommendations included in this report are presented to assist you in improving accounting procedures and controls. Progress on implementing these recommendations will be reviewed during our next audit. A summary of the progress on all audit recommendations developed during our prior audit is shown in the section entitled "Status of Prior Audit Recommendations and Progress Toward Implementation."

The financial statements in this report are presented for the general information of the reader only, and do not purport to represent financial position or results of operations in accordance with generally accepted accounting principles. The financial statements were not audited by us, and accordingly, we do not express an opinion on them. See Note 1 of the financial statements for an explanation of the basis of financial statement presentation.

This audit was conducted in accordance with the policy of the Legislative Auditor to perform audits of the administrative practices of the six elected state constitutional officers as follows:

- an audit to commence not later than June 30 of the third year in office, so that a report is issued by the end of the third year in the term, and
- an audit to commence in December of the fourth year, so that a report is issued soon after the end of the term.

This schedule is not meant to preclude the Legislative Auditor from making an interim audit if deemed necessary, or as directed by the Legislature or the Legislative Audit Commission.

*Gerald W. Christenson*

Gerald W. Christenson  
Legislative Auditor

May 12, 1983

OFFICE OF THE LIEUTENANT GOVERNOR

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AUDIT PARTICIPATION

STAFF FROM THE OFFICE OF THE LEGISLATIVE AUDITOR

John Asmussen, CPA, Deputy Legislative Auditor  
Warren Bartz, CPA, Audit Manager  
Judith Hunt, CPA, Auditor-in-Charge  
Tony Toscano, Staff Auditor  
Brad White, Staff Auditor

EXIT CONFERENCE

The findings and recommendations in this report were discussed with:

Members of Lieutenant Governor Wangberg's staff on March 16, 1983 --

Carolyn Ring, Director of Internal Management  
John Pemble, Accounting Coordinator

and

Members of Lieutenant Governor Johnson's staff on April 19, 1983 --

Dorothy Dahlenburg, Chief of Staff  
Julia Reitan, Special Assistant

# OFFICE OF THE LIEUTENANT GOVERNOR

## INTRODUCTION

The Office of the Lieutenant Governor was created by Article V of the Constitution of the State of Minnesota. The Governor and the Lieutenant Governor are elected jointly by the voters of the state who cast a single vote that applies to both offices. The Governor and Lieutenant Governor serve a four year term. The activities of the Lieutenant Governor's Office are financed through appropriations from the General Fund.

The scope of our audit included the executive operations program of the Lieutenant Governor's Office. Activities financed through the executive operations account consist of the administration of those tasks assigned by the Governor. Such tasks include undertaking special projects, preparing reports, and representing the Governor and the state at various meetings and conferences. The Lieutenant Governor also serves as a member of various boards and commissions.

OFFICE OF THE LIEUTENANT GOVERNOR

CURRENT FINDING AND RECOMMENDATION

Documentation for the Lieutenant Governor's department head expenses was inadequate.

Minn. Stat. Section 16A.16 permits constitutional officers to expend a sum not to exceed \$2,000 from their supply and expense funds, "for expenses necessary for the normal performance of their duties for which no other reimbursement is provided." These expenses may include, for example, the costs of meals when conducting official state business with citizens, or coffee and cake when presenting employee service awards. The department head expenses of the Lieutenant Governor are paid through an imprest cash account established with a private bank, as recommended by the Legislative Auditor in a memorandum dated January 5, 1979.

In our examination of 25 expenditures made during the audit period, we found 11 instances where the documentation did not contain a statement indicating the purpose or participants of a meeting or similar event. At our request, however, the Director of Internal Management in the Lieutenant Governor's Office provided a written explanation necessary for each expenditure.

Adequate documentation of expenditures made from the department head expense account is essential to determine if they are for a public purpose. Without sufficient documentation for each expenditure, there is no way to determine the propriety of the expenditures, which must withstand any test of public scrutiny.

RECOMMENDATION:

1. Staff of the Lieutenant Governor's Office should specifically provide, on the documentation supporting each department head expenditure, all information necessary to determine whether the expenditure is for a public purpose. This information includes the purpose and participants of business meetings or other similar events.

OFFICE OF THE LIEUTENANT GOVERNOR

EXHIBIT A

UNAUDITED, FOR INFORMATIONAL PURPOSES ONLY, SEE NOTE 1

STATEMENT OF APPROPRIATIONS, TRANSFERS, EXPENDITURES  
AND AVAILABLE BALANCE

Years Ended June 30, 1981 and 1982,  
and Six Months Ended December 31, 1982

<u>General Fund</u>	<u>Years Ended June 30</u>		<u>Six Months</u>
	<u>1981</u>	<u>1982</u>	<u>Ended</u>
			<u>12/31/82</u>
State Appropriations - Exhibit B	\$229,497	\$200,000	\$205,000
Appropriation Cancellations	(10,956)	(2,357)	
Transfers In:			
Salary Supplements		26,418	32,800
Total Available	<u>\$218,541</u>	<u>\$224,061</u>	<u>\$237,800</u>
Expenditures - Note 2:			
Personal Services	\$186,494	\$186,228	\$ 90,639
Rents and Leases	14,811	21,004	8,282
Personal Expenses	1,520	1,180	904
Purchased Services	468	1,215	495
Communications	4,778	2,175	
Travel and Subsistence	5,736	9,333	3,731
Supplies and Materials	3,865	2,424	744
Other	869	502	290
Total Expenditures	<u>\$218,541</u>	<u>\$224,061</u>	<u>\$105,085</u>
Available Balance, December 31, 1982	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$132,715</u>

OFFICE OF THE LIEUTENANT GOVERNOR

EXHIBIT B

UNAUDITED, FOR INFORMATIONAL PURPOSES ONLY, SEE NOTE 1

SCHEDULE OF APPROPRIATIONS AND BUDGET REDUCTIONS

Years Ended June 30, 1981 and 1982,  
and Six Months Ended December 31, 1982

<u>General Fund</u>	<u>Years Ended June 30</u>		<u>Six Months Ended 12/31/82</u>
	<u>1981</u>	<u>1982</u>	
Appropriations - Note 3:			
Laws 1979, Chapter 333, Section 9	<u>\$229,497</u>		
Laws 1981, Chapter 356, Section 10		<u>\$200,000</u>	<u>\$205,000</u>
Available Appropriations - Exhibit A	<u>\$229,497</u>	<u>\$200,000</u>	<u>\$205,000</u>

OFFICE OF THE LIEUTENANT GOVERNOR

EXHIBIT C

UNAUDITED, FOR INFORMATIONAL PURPOSES ONLY, SEE NOTE 1

STATEMENT OF REVENUES DEPOSITED WITH THE STATE TREASURER

Years Ended June 30, 1981 and 1982,  
and Six Months Ended December 31, 1982

	<u>Years Ended June 30</u>		<u>Six Months</u>
	<u>1981</u>	<u>1982</u>	<u>Ended</u>
			<u>12/31/82</u>
<u>General Fund - Note 4:</u>			
State Car Reimbursement	\$ 558	\$ 558	
Prior Year Expenditure Refunds	162		\$ 34
Other Reimbursements	<u>195</u>	<u>          </u>	<u>          </u>
Total General Fund	<u>\$ 915</u>	<u>\$ 558</u>	<u>\$ 34</u>

## NOTES TO THE FINANCIAL STATEMENTS

- Note 1: The financial statements do not represent financial position or results of operations in accordance with generally accepted accounting principles. The Statewide Accounting (SWA) system reports through September 5, 1981, September 4, 1982, and December 31, 1982, were used in preparing these statements with adjustments for activity occurring subsequent to that date. Consequently, the statements were not prepared using the accrual basis of accounting.
- Note 2: The expenditures for the years ended June 30, 1981 and 1982 include applicable disbursements and adjustments which occurred after the Statewide Accounting System cutoff dates. Expenditures for the six months ended December 31, 1982 include encumbrances totaling \$8,854 which were related to that period's activity.
- Note 3: The appropriations for the years ended June 30, 1982 and 1983 were included with those for the Governor. Therefore, the budget reductions included in Laws of 1981 and Laws of 1982 were applied only to the Governor's appropriations.
- Note 4: The revenue deposited to the credit of the General Fund is non-dedicated and does not increase the available appropriations.

OFFICE OF THE LIEUTENANT GOVERNOR

STATUS OF PRIOR AUDIT RECOMMENDATIONS  
AND  
PROGRESS TOWARD IMPLEMENTATION

The Lieutenant Governor's Office did not submit a request for local purchase authority to the Department of Administration's procurement division for fiscal year 1980 as required by operating procedures of the Department of Finance.

1. Authorization of the request for local purchase authority by the procurement division of the Department of Administration should be sought prior to the beginning of each fiscal year so that the Lieutenant Governor's Office retains the privilege of encumbering funds for local purchases.

Recommendation Implemented.

Internal control over the Lieutenant Governor's department head expense account needs strengthening.

2. An individual other than the staff person responsible for controlling the department head expense account, should independently reconcile the checkbook balance to the monthly bank statement balance and simultaneously review the payments made from the account for compliance with established policy.

Recommendation Implemented.

L O U W A N G B E R G  
2427 Farrington Circle  
Roseville, Minnesota 55113

May 12, 1983

Gerald W. Christenson  
Legislative Auditor  
State of Minnesota  
Office of the Legislative Auditor  
Veterans Service Building  
St. Paul, MN 55155

Dear Mr. Christenson:

Enclosed is the detailed response to the audit of the Lieutenant Governor's Office for the period of time from July 1, 1980 through December 31, 1982.

Sincerely,



Carolyn Ring  
Administrative Assistant to  
Lt. Governor Lou Wangberg

LIEUTENANT GOVERNOR'S OFFICE  
RESPONSES TO CURRENT FINDINGS AND RECOMMENDATIONS

Recommendation

1. Staff of the Lieutenant Governor's Office should specifically provide, on the documentation supporting each department head expenditure, all information necessary to determine whether the expenditure is for a public purpose. This information includes the purpose and participants of business meetings or other similar events.

Response

We felt that the records were accurate and complete for the Lieutenant Governor's personal expense account and documentation existed to support the fact that all expenditures were for public purposes. We recognize that records were kept in more than one place and that it would be preferable to keep them together.



**STATE OF MINNESOTA**  
OFFICE OF THE LIEUTENANT GOVERNOR

MARLENE JOHNSON  
LIEUTENANT GOVERNOR

ST. PAUL 55155

April 20, 1983

Mr. Gerald Christianson  
Legislative Auditor  
Veterans Service Building  
St. Paul, MN 55155

Dear Mr. Christianson:

In response to your concerns regarding documentation of the expense account set up for the use of the Lieutenant Governor, my office has implemented the following procedure:

- 1) A ledger has been created listing each check that is written from the account, to whom the check was made payable, and a description of the purpose of the expenditure.
- 2) A copy of the receipt or invoice is kept on file in our office indicating the check number and date paid, the purpose of the expenditure, and the people who participated, if applicable.
- 3) Copies of the ledger are forwarded to our fiscal services representative when additional funds are requested for the account.

If this procedure is not adequate, please let me know. We are most willing to provide the kind of documentation that is necessary.

Sincerely,

A handwritten signature in cursive script that reads "Marlene Johnson".

Marlene Johnson  
Lieutenant Governor

MJ/JR:a1

AUDIT REPORT

Office of the  
SECRETARY OF STATE

Years Ended June 30, 1981 and 1982  
and  
Six Months Ended December 31, 1982

Operating under the State Constitution  
Article V and Minn. Stat. Chapter 5

OFFICE OF THE LEGISLATIVE AUDITOR  
FINANCIAL AUDIT DIVISION



STATE OF MINNESOTA  
OFFICE OF THE LEGISLATIVE AUDITOR  
Veterans Service Building  
St. Paul, Minnesota 55155

GERALD W. CHRISTENSON  
Legislative Auditor

(612) 296-4708

Representative Dick Welch, Chairman  
Legislative Audit Commission

and

The Honorable Joan Anderson Growe  
Secretary of State

We have completed a financial and compliance audit of the Office of the Secretary of State for the years ended June 30, 1981 and 1982 and the six months ended December 31, 1982. The audit field work was completed February 16, 1983. Our audit was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. The objectives of the audit were to determine that:

- effective control is being maintained over revenues, expenditures, assets and liabilities;
- proper accounting is made for resources and operations;
- administrative practices, activities and programs are carried out in accordance with the requirements of the state constitution, applicable laws and regulations;
- the disbursements from the department head expense account were properly supported and made for a purpose related to the office; and
- the recommendations of the prior audit report were addressed.

Our audit results indicated that the Office of the Secretary of State is in compliance with basic statutory requirements. The recommendations included in this report are presented to assist you in improving accounting procedures and controls. Progress on implementing these recommendations will be reviewed during our next audit. A summary of the progress on all audit recommendations developed during our prior audit is shown in the section entitled "Status of Prior Audit Recommendations and Progress Toward Implementation."

Representative Dick Welch, Chairman  
and  
The Honorable Joan Anderson Growe  
Page 2

The financial statements in this report are presented for the general information of the reader only, and do not purport to represent financial position or results of operations in accordance with generally accepted accounting principles. The financial statements were not audited by us, and accordingly, we do not express an opinion on them. See Note 1 of the financial statements for an explanation of the basis of financial statement presentation.

This audit was conducted in accordance with the policy of the Legislative Auditor to perform audits of the administrative practices of the six elected state constitutional officers as follows:

- an audit to commence not later than June 30 of the third year in office, so that a report is issued by the end of the third year in the term, and
- an audit to commence in December of the fourth year, so that a report is issued soon after the end of the term.

This schedule is not meant to preclude the Legislative Auditor from making an interim audit if deemed necessary, or as directed by the Legislature or the Legislative Audit Commission.

*Gerald W. Christenson*

Gerald W. Christenson  
Legislative Auditor

April 20, 1983

OFFICE OF THE SECRETARY OF STATE

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AUDIT PARTICIPATION

STAFF FROM THE OFFICE OF THE LEGISLATIVE AUDITOR

John Asmussen, CPA, Deputy Legislative Auditor  
Warren Bartz, CPA, Audit Manager  
Steven D. Pyan, Auditor-in-Charge  
Dave Poliseno, Staff Auditor

The findings and recommendations in this report were discussed with the following representatives of the Office of the Secretary of State on February 16, 1983:

Joan Anderson Growe, Secretary of State  
Tom Durand, Office Director  
Terri Elizondo, Fiscal Operations Supervisor

# OFFICE OF THE SECRETARY OF STATE

## INTRODUCTION

The Office of The Secretary of State was established as part of the executive branch of state government by the Constitution of the State of Minnesota. The voters of the state elect the Secretary of State, who serves a four year term. The duties of the Secretary of State include:

- maintaining custody of the state seal, official and corporate records and documents;
- certifying the authenticity of official records, documents, proclamations and executive orders of the Governor, and acts of the Legislature;
- conducting training for local election officials and administering other functions for elections;
- compiling the Minnesota Legislative Manual; and
- administering the open appointment process.

The responsibilities of the Secretary of State are administered by the Business Services, Elections/Publications, Fiscal Operations, and Uniform Commercial Code (UCC) Divisions.

The scope of our audit included the revenues and expenditures for general operations, elections and documents, foreign and domestic corporations, and the UCC. The activities of the office are financed through appropriations from the General Fund.

OFFICE OF THE SECRETARY OF STATE

CURRENT FINDINGS AND RECOMMENDATIONS

The disbursements listed on the Statewide Accounting (SWA) system expenditure by AID reports are not verified to the actual payment documents.

The Fiscal Operations Section of the Secretary of State's Office prepares all invoices for payment, including having an authorized person approve the payment. Since the office is not equipped with the proper computer equipment to process the payments of such invoices, batches of invoices are sent to the Department of Finance for processing the payments. After processing and entering the payments, Department of Finance personnel record the appropriate transaction number on each invoice. A copy is not returned to the Secretary of State for filing.

However, Secretary of State Fiscal Operations staff do not reconcile the paid invoices with the transactions as recorded on the monthly expenditure by AID (account identifier) reports which are received by them. Sound fiscal policies dictate that payments should be verified to ensure that they were properly entered on the SWA system by another state department, that state records show the proper expenditure totals, and that the payment was made to the appropriate vendor.

RECOMMENDATION:

1. The Secretary of State's staff should verify disbursements to the monthly expenditure by AID report and show some evidence on the report that the verification was made.

Billing costs for photocopies of Uniform Commercial Code (UCC) documents exceed potential collections for small unpaid requests.

The UCC Division accepts the filing of financial statements to protect the security interest of a creditor or lien holder. A filing fee is assessed. Upon the request of any person, the filing officer conducts a search of his file for any effective financing statements and issues his certificate and photocopies of the original documents on file. The uniform fee for conducting the search, preparing a certificate, and for preparing up to five photocopies is \$5 if the request is in the standard form and otherwise is \$10. There is an additional fee of 50¢ for each financing statement and each statement of assignment listed on the certificate and for each photocopy in excess of the first five. This procedure as prescribed by Minn. Stat. Section 336.9-407 results in numerous small balances in the book of account.

The current practice for billing all accounts is that four notices are mailed in addition to the invoice which is included with material ordered when it is sent to the requestor. When payments are not received for the nominal amounts due, the costs involved in continually billing those accounts obviously exceed the potential collections.

OFFICE OF THE SECRETARY OF STATE

RECOMMENDATION:

2. The Secretary of State should include in the written billing procedures, provisions for not sending more than the initial invoice when the amount due is less than \$1. If not paid within a reasonable period, the amount should be written off.

Purchasing office supply items from the department head expense account was not in accordance with established guidelines.

Minn. Stat. Section 16A.16 permits state department heads to use appropriated funds to pay certain expenses necessary for the normal performance of their duties for which no other reimbursement is provided. All such expenses must be in accordance with guidelines established by the Commissioner of Finance.

During our review of invoices and other documentation relating to the department head expense account, we found that a few office supply items were purchased by office personnel who received reimbursement from that account. We do not believe that the purchases were inappropriate, and we realize that it may be necessary at times for certain employees to purchase certain supplies in an emergency, or because they are not available from Central Stores. However, the reimbursement should be made from the appropriate supplies account and not from the department head expense account for two reasons. First, the guidelines of the Commissioner of Finance issued in December 1975 and January 1983 state that the account may not be used to pay for office supplies. Second, the possibility of misstating the actual office supplies expense exists. A portion of the existing imprest cash account could be designated to purchase low cost office supplies not available from Central Stores.

RECOMMENDATION:

3. The Secretary of State should request the Commissioner of Finance to designate a small portion of the existing imprest cash account for purchasing office supplies. As an alternative, the Secretary of State should submit invoices for the purchase of low cost, emergency office supplies directly to the Department of Finance without using the department head expense account.

OFFICE OF THE SECRETARY OF STATE

EXHIBIT A

UNAUDITED, FOR INFORMATIONAL PURPOSES ONLY, SEE NOTE 1

STATEMENT OF APPROPRIATIONS, TRANSFERS, EXPENDITURES  
AND AVAILABLE BALANCE

Years Ended June 30, 1981 and 1982,  
and Six Months Ended December 31, 1982

<u>General Fund</u>	<u>Years Ended June 30</u>		<u>Six Months</u>
	<u>1981</u>	<u>1982</u>	<u>Ended</u>
			<u>12/31/82</u>
State Appropriations - Exhibit B	\$1,066,100	\$ 974,300	\$1,185,609
Appropriation Cancellations	(62,122)	(75,255)	
Transfers In:			
Salary Supplements	81,798	60,756	95,212
Legislative Advisory Commission-- Lawsuit for Congressional and Leg- islative District Reapportionment		108,841	57,543
Other	<u>103,200</u>		
Total Available	<u>\$1,188,976</u>	<u>\$1,068,642</u>	<u>\$1,338,364</u>
Expenditures - Note 2:			
Personal Services	\$ 602,812	\$ 644,959	\$ 344,215
Rents and Leases	28,576	48,008	17,159
Printing and Publication	261,516	133,546	63,645
Communications	69,552	58,466	30,120
Data Systems Consulting Services		17,300	
Travel and Subsistence	3,822	4,340	1,946
Office Equipment and Supplies	21,708	38,262	19,325
Grants to Counties (state ballot costs reimbursement)	189,880		221,548
Legislative and Congressional District Reapportionment Costs		108,841	52,021
Other Fees and Expenses	<u>11,100</u>	<u>14,920</u>	<u>7,990</u>
Total Expenditures	<u>\$1,188,976</u>	<u>\$1,068,642</u>	<u>\$ 757,969</u>
Available Balance, December 31, 1982	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 580,395</u>
<u>Agency Fund</u>			
County Recorder Fees Collected - Exhibit C	\$ 83,414	\$ 46,566	
Due from General Fund - Note 3		<u>394</u>	
Total Available	<u>\$ 83,414</u>	<u>\$ 46,960</u>	
Expenditures:			
Remittances to County Recorders	<u>\$ 83,414</u>	<u>\$ 46,960</u>	
Available Balance, December 31, 1982	<u>\$ -0-</u>	<u>\$ -0-</u>	

OFFICE OF THE SECRETARY OF STATE

EXHIBIT B

UNAUDITED, FOR INFORMATIONAL PURPOSES ONLY, SEE NOTE 1

SCHEDULE OF APPROPRIATIONS AND BUDGET REDUCTIONS

Years Ended June 30, 1981 and 1982,  
and Six Months Ended December 31, 1982

<u>General Fund</u>	<u>Years Ended June 30</u>		<u>Six Months</u>
	<u>1981</u>	<u>1982</u>	<u>Ended</u>
			<u>12/31/82</u>
Appropriations:			
Laws 1979, Chapter 333, Section 10	\$1,038,200		
Laws 1980, Chapter 614, Section 5	25,000		
Laws 1981, Chapter 356, Section 11		\$1,005,500	\$1,256,800
Laws 1981, Chapter 270, Section 143	2,900	11,100	9,800
Budget Reductions:			
Laws 1981, Chapter 356, Section 11		(30,000)	(50,000)
Laws 1981, Third Special Session Chapter 2, Article I, Section 2, Subd. 1(g)		(12,300)	(20,000)
Laws 1982, Chapter 641, Article I, Section 2, Subd. 1(j)			(10,991)
Available Appropriations - Exhibit A	<u>\$1,066,100</u>	<u>\$ 974,300</u>	<u>\$1,185,609</u>

UNAUDITED, FOR INFORMATIONAL PURPOSES ONLY, SEE NOTE 1

## STATEMENT OF REVENUES DEPOSITED WITH THE STATE TREASURER

Years Ended June 30, 1981 and 1982,  
and Six Months Ended December 31, 1982

	Years Ended June 30		Six Months Ended 12/31/82
	<u>1981</u>	<u>1982</u>	
<u>General Fund - Note 4:</u>			
Filing Fees	\$1,699,899	\$2,209,097	\$1,048,984
Inspection Fees (voting machines)	588	2,652	
County Recorder Fees - Note 5		394	
Reimbursements	<u>1,341</u>	<u>119</u>	<u>1,008</u>
Gross General Fund Revenues	\$1,701,828	\$2,212,262	\$1,049,992
Less: Revenue Refunds	<u>(45,617)</u>	<u>(56,910)</u>	<u>(44,334)</u>
Total General Fund	<u>\$1,656,211</u>	<u>\$2,155,352</u>	<u>\$1,005,658</u>
<u>Agency Fund - Note 6:</u>			
County Recorder Fees - Exhibit A	<u>\$ 83,414</u>	<u>\$ 46,566</u>	

## NOTES TO THE FINANCIAL STATEMENTS

- Note 1: The financial statements do not represent financial position or results of operations in accordance with generally accepted accounting principles. The Statewide Accounting (SWA) system reports through September 5, 1981, September 4, 1982, and December 31, 1982, were used in preparing these statements with adjustments for activity occurring subsequent to that date. Consequently, the statements were not prepared using the accrual basis of accounting.
- Note 2: The expenditures for the years ended June 30, 1981 and 1982 include applicable disbursements and adjustments which occurred after the statewide accounting system cutoff dates. Expenditures for the six months ended December 31, 1982 include encumbrances totaling \$111,515 which were related to that period's activity.
- Note 3: These fees were deposited into the General Fund due to a clerical error.
- Note 4: The revenue deposited to the credit of the General Fund is non-dedicated and does not increase the available appropriation.
- Note 5: These fees were deposited into the General Fund due to a clerical error.
- Note 6: The revenue deposited in the Agency Fund was collected by the Secretary of State on behalf of county recorders throughout the state. Due to recent law changes, the department will no longer collect and remit these fees to the counties.

The \$1,000 appropriated by statute to establish the Revolving Fund will be returned to the General Fund.

OFFICE OF THE SECRETARY OF STATE

STATUS OF PRIOR AUDIT RECOMMENDATIONS  
AND  
PROGRESS TOWARD IMPLEMENTATION

The procedures involved with processing receipts require improvement.

1. Receipts (deposited on form FIN 8) should be reconciled with the statewide accounting (SWA) system reports on a monthly basis.

Recommendation Implemented.

2. The Secretary of State should establish procedures to ensure the daily deposit of cash receipts with the State Treasurer when such receipts aggregate \$50 or more.

Recommendation Implemented.

The calculation of annual filing fees by foreign corporations results in a large percentage of errors by the corporations and refunds due to the complexity of the statutory formula.

3. The Secretary of State should review the formula for calculating the fees provided by Minn. Stat. Section 303.15 and revise this statute to ease the method of fee computation.

Recommendation Implemented.

An imprest cash checking account needs to be established to eliminate the present practice of issuing Uniform Commercial Code (UCC) refunds in currency.

4. Authority should be requested in accordance with Minn. Stat. Section 15.191 and Department of Finance's "Accounting Operations Manual" (Procedure 06:06:04) to establish an imprest cash checking account.

Recommendation Implemented.

Duties between the purchasing, disbursing and receiving functions are not separated.

5. An employee not involved in the purchasing and disbursing functions should be responsible for receiving all merchandise and completing the receiving report.

Recommendation Implemented.

OFFICE OF THE SECRETARY OF STATE

Internal controls over payroll need strengthening to assure adequate monitoring of payroll.

6. Positive time reporting should be implemented for all employees. Individual time reports should be signed by the employee and the supervisor to ensure accountability for the time that the employee is being compensated for.

Recommendation Implemented.

7. The payroll roster should be signed, and posting to the accounts should be verified by an individual not directly associated with payroll and personnel processing.

Recommendation Implemented.

8. Payroll warrants should be picked up and distributed by an independent employee not involved with the payroll or personnel functions.

Recommendation Implemented.



State of Minnesota  
OFFICE OF THE SECRETARY OF STATE  
St. Paul 55155

JOAN ANDERSON GROWE  
Secretary of State

CAROLYN PEABODY  
Deputy Secretary of State

180 STATE OFFICE BUILDING  
Corporation Division: 612/296-2803  
UCC Division: 612/296-2434  
Election Division: 612/296-2805  
Office of the Secretary: 612/296-3266  
Office of Deputy Secy.: 612/296-2309

April 20, 1983

Gerald W. Christenson  
Legislative Auditor  
Veterans Service Building  
1st Floor West Wing  
St. Paul, MN 55155

Dear Mr. Christenson:

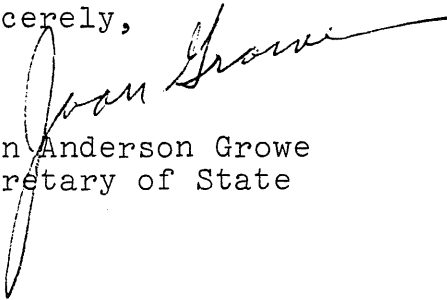
The following is the response of the Office of the Secretary of State to the audit report for this Department for the years ending June 30, 1981 and 1982, and the six months ended December 31, 1982:

1. Procedures for reconciliation of disbursements to statewide accounting (SWA) reports will be established. While we agree that this review is desirable we have not done so in the past, because we felt that any payments to the wrong vendors would be reported by the vendor who had not been paid and any overpayments would come to light when the encumbrances were reconciled. We will reconcile the monthly expenditure by AID report with batch totals from the copies of what has been submitted to Finance. We will indicate on the report the name of the person verifying it and the date of completion. To be implemented in May 1983 by Theresa Elizondo.
2. We will establish written procedures for not sending more than the initial invoice when the amount due is less than \$1. If not paid within a reasonable period, the amount will be written off. It is not often that agencies are criticized for their overzealousness in collecting outstanding debts and we appreciate your directive to eliminate multiple billings on these nominal amounts. To be implemented in May 1983 by Theresa Elizondo.
3. The Secretary of State will request the Commissioner of Finance to designate a small portion of the existing imprest cash fund to be used for the purchasing of emergency low cost office supplies. We have in the past,

only used the Department head expense account for the purchase of supplies when we have exhausted efforts to get them through regular channels in a timely fashion. This has never amounted to more than a very small percentage of the \$1,000 appropriated for Department Head Expense. To be implemented in May 1983 by Theresa Elizondo.

Please extend to your staff my thanks for their professionalism in conducting their audit of this Department.

Sincerely,

A handwritten signature in cursive script, appearing to read "Joan Anderson Growe". The signature is written in dark ink and is positioned above the typed name.

Joan Anderson Growe  
Secretary of State

AUDIT REPORT

Office of the  
STATE TREASURER

Years Ended June 30, 1981 and 1982  
and  
Six Months Ended December 31, 1982

Operating under the State Constitution  
Article V and Minn. Stat. Chapter 7

OFFICE OF THE LEGISLATIVE AUDITOR  
FINANCIAL AUDIT DIVISION



STATE OF MINNESOTA  
OFFICE OF THE LEGISLATIVE AUDITOR

Veterans Service Building  
St. Paul, Minnesota 55155

GERALD W. CHRISTENSON  
Legislative Auditor

(612) 296-4708

Representative Dick Welch, Chairman  
Legislative Audit Commission

The Honorable Jim Lord  
State Treasurer (former)

and

The Honorable Robert Mattson  
State Treasurer

We have completed a financial and compliance audit of the Office of the State Treasurer for the years ended June 30, 1981 and 1982, and the six months ended December 31, 1982. The audit field work was completed February 18, 1983. Our audit was made in accordance with generally accepted auditing standards and accordingly included such tests as we considered necessary in the circumstances.

The objectives of the audit were to determine that:

- The transfer of books and funds to the new State Treasurer was made in accordance with Minn. Stat. Section 3.973.
- Effective control is being maintained over revenues, expenditures, assets and liabilities of the State Treasurer's Office.
- Expenditures were made in accordance with applicable laws, regulations and budget requirements.
- The prior recommendations included in the constitutional officers audit for the years ended June 30, 1979 and 1980 have been implemented.

Except as identified in this report, our audit tests indicated that the State Treasurer's Office is in compliance with basic statutory requirements. The recommendations included in this report are presented to assist you in improving accounting procedures and controls. Progress on implementing these recommendations will be reviewed during our next audit. A

Representative Dick Welch, Chairman  
The Honorable Jim Lord  
and  
The Honorable Robert Mattson  
Page 2

summary of the progress on all audit recommendations developed during our prior audit is shown in the section entitled, "Status of Prior Audit Recommendations and Progress Toward Implementation."

The financial statements in this report are presented for the general information of the reader only, and do not purport to represent financial position or results of operations in accordance with generally accepted accounting principles. The financial statements were not audited by us, and accordingly we do not express an opinion on them. See Note 1 of the financial statements for an explanation of the basis of financial statement presentation.

This audit was conducted in accordance with the policy of the Legislative Auditor to perform audits of the administrative practices of the six elected state constitutional officers as follows:

- an audit to commence not later than June 30 of the third year in office, so that a report is issued by the end of the third year in the term, and
- an audit to commence in December of the fourth year, so that a report is issued soon after the end of the term.

This schedule is not meant to preclude the Legislative Auditor from making an interim audit if deemed necessary, or as directed by the Legislature or the Legislative Audit Commission.

*Gerald W. Christenson*

Gerald W. Christenson  
Legislative Auditor

May 6, 1983

OFFICE OF THE STATE TREASURER

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AUDIT PARTICIPATION

STAFF FROM THE OFFICE OF THE LEGISLATIVE AUDITOR

John Asmussen, CPA, Deputy Legislative Auditor  
Claudia Gudvangen, CPA, Audit Manager  
Jack Hirschfeld, CPA, Auditor-in-Charge  
Darlya Ecklund, Staff Auditor  
Lori Lowe, Staff Auditor

The findings and recommendations in this report were discussed with the following representatives of the Office of the State Treasurer on February 24, 1983:

Jim Dunlop, Deputy State Treasurer  
Jerry Engebretson, Fiscal Activities Director  
Greg Colberg, Accounting Officer  
Sandy Sadecke, Unclaimed Property Supervisor

# OFFICE OF THE STATE TREASURER

## INTRODUCTION

The Office of the State Treasurer was established as part of the executive branch of state government by the Constitution of the State of Minnesota. The State Treasurer is elected by the voters of the state for a term of four years. The duties of the State Treasurer include:

- receiving and accounting for monies paid into the state treasury until lawfully disbursed or invested,
- providing for safekeeping and inventory of investment securities,
- maintaining records and providing accounting for the state's indebtedness for general obligation bonds,
- redeeming and verifying the validity of state warrants,
- administering the Unclaimed Property Act, and
- serving on the State Executive Council, the State Board of Investment, and as treasurer of the Metropolitan Airports Commission.

The scope of our audit included the revenues and expenditures for general operations and unclaimed and escheated property, as well as functions relating to cash and warrants, investments and bonds.

OFFICE OF THE STATE TREASURER

CURRENT FINDINGS AND RECOMMENDATIONS

UNCLAIMED AND ESCHEATED PROPERTY

PRIOR AUDIT RECOMMENDATION NOT IMPLEMENTED: The State Treasurer has not sold the abandoned (unclaimed) property in his custody as required by Minn. Stat. Section 345.47.

Minn. Stat. Section 345.47, Subd. 1 states that, "all abandoned property other than money delivered to the State Treasurer under Sections 345.31 to 345.60 shall within one year after the delivery be sold by him to the highest bidder at a public sale . . ." It also provides that the State Treasurer need not offer any property for sale if the expected cost of the sale exceeds the value of the property being sold. In prior audits of the Treasurer's Office, we found that no sale of abandoned property had been completed. Our review of this area during the current audit has determined that there still has been no sale of the property.

The former State Treasurer had expressed concern over potential legal liabilities resulting from the sale of abandoned property, and stated that he hoped to introduce legislation to reduce liability; however, this has not been done. The treasurer also felt the value of the abandoned property was appreciating and thus served as a good investment.

We continue to believe, as stated in prior audit reports, that the state could realize additional revenue from the sale of abandoned property and that the increased costs of storage and security for the property should be considered. We believe that the intent of Minn. Stat. Section 345.47 is that unclaimed property be sold promptly after it is determined that there is no response to the search for owners.

RECOMMENDATION:

1. The State Treasurer should work with the Department of Administration to hold a public auction of unclaimed property in his custody.

PRIOR AUDIT RECOMMENDATIONS NOT IMPLEMENTED: Property received from escheated estates has remained in the State Treasurer's vault for several years.

The State Treasurer holds various stocks and other personal property which were received, through the Attorney General's Office, from the residue of estates where the deceased left no surviving spouse or other beneficiary. Minn. Stat. Section 525.151 provides for the State Treasurer to hold such property, and to invest, sell, or dispose of it in accordance with the direction of the State Board of Investment (SBI). According to Minn. Stat. Section 11A.04, SBI shall direct the State Treasurer to sell escheated property when the board determines it is in the best interest of the state

OFFICE OF THE STATE TREASURER

to do so. Sales of escheated property have not occurred since 1956. Sales of this property would reduce storage costs and could provide additional revenue for the General Fund.

The former State Treasurer expressed concern over the potential legal liabilities that may arise from the sale of escheated property. In our opinion, if the intent of these statutes is to be carried out, it is essential that the State Treasurer and the State Board of Investment make provisions for the sale, investment, or other disposition of this property.

RECOMMENDATIONS:

2. The State Treasurer should work with the State Board of Investment to determine the proper disposition of all escheated property.
3. If escheated property is to be sold, the State Treasurer should consider combining the sale with public auctions of unclaimed property.

PRIOR AUDIT RECOMMENDATION NOT IMPLEMENTED: The balance in the trust account which was established to pay claims on abandoned property has exceeded the \$25,000 limit imposed by statute.

Minn. Stat. Section 345.48, Subd. 1 states that all funds received under the Unclaimed Property Act shall "be deposited by the State Treasurer in the General Fund of the state, except that he shall retain in a separate trust fund an amount not exceeding \$25,000 from which he shall make prompt payment of claims. . . ." The following schedule demonstrates that the account balance has recently been in excess of that allowed by statute:

<u>Date</u>	<u>Account Balance</u>
December 31, 1980	\$174,758
June 30, 1981	75,687
December 30, 1981	146,502
June 30, 1982	23,921
December 31, 1982	216,640

In past audit reports we recommended that the State Treasurer should analyze the future volume of claims to determine if the maximum amount of the trust fund should be increased. The treasurer responded that with the increase in claims it is difficult to operate with a \$25,000 balance, and would seek legislation at the appropriate time. Abandoned property claims for the fiscal year ended June 30, 1982 amounted to \$266,766.

RECOMMENDATION:

4. The State Treasurer's Office should work with the Department of Finance to monitor the balance in the abandoned property trust account to ensure it does not exceed \$25,000 at any given time, or seek legislation to change the restrictions imposed on the maximum amount.

OFFICE OF THE STATE TREASURER

PRIOR AUDIT RECOMMENDATION NOT IMPLEMENTED: Identification of unclaimed property in the custody of the State Treasurer needs improvement.

Holders of abandoned property that has remained unclaimed for a specified period of time are required by Minn. Stat. Section 345.43 to deliver the property to the State Treasurer. The primary source of property other than cash is from abandoned safe deposit boxes held at banks. The reports submitted by banks generally do not contain adequate descriptions for identification and valuation purposes. The State Treasurer has not enforced Minn. Stat. Section 345.32(d)(2) which requires the holder, in the presence of a designated official of the banking institution and a notary public not employed by the holder, to remove and seal the contents of the safe deposit box in a package marked with the estimated value of the contents. Without adequate descriptions and valuations, the possibility exists for the removal of portions of the contents of a safe deposit box and/or the substitution of less valuable items for those of value.

In response to the prior recommendation regarding identification and valuation of property, the former State Treasurer questioned whether he had authority to require holders to provide precise descriptions. He also stated that since Minn. Stat. Section 345.32(d)(2) was not enacted until 1977 and since the contents of safe deposit boxes currently being received were from seven years prior to the current date, holder compliance with this statute would not be known until 1984. However, Laws of 1981, Third Special Session, Chapter 2, Article I, Section 58 changed the length for holding the contents of a safe deposit box to five years. Property currently being received should be from boxes becoming inactive after 1977.

RECOMMENDATIONS:

5. The State Treasurer should require holders of abandoned property to provide precise descriptions of property submitted or assume that responsibility once the property is received.
6. The State Treasurer should require holders of abandoned property to strictly comply with the valuation provisions of Minn. Stat. Section 345.32(d)(2).

PRIOR AUDIT RECOMMENDATION PARTIALLY IMPLEMENTED: Internal control over the abandoned property in the custody of the State Treasurer is weak.

A comprehensive listing of all abandoned property held at the State Treasurer's Office is not maintained. During fiscal year 1982, a computerized printout of holders and recorded owners was made. This printout included a detailed listing of items received during the current year. However, for prior years, there is no complete listing and one must analyze each remittance advice submitted by holders to verify inventory. This type of recordkeeping system inhibits the periodic comparison of detailed inventory records with actual property on hand. Abandoned property returned to those

OFFICE OF THE STATE TREASURER

individuals providing proof of ownership is also not accounted for except on the remittance report. A current inventory listing of all property on hand would provide for better internal controls and also for information necessary for the administration of this program.

RECOMMENDATION:

7. A comprehensive listing of abandoned property received by the State Treasurer should be developed, including those items acquired in prior years. The list should include the date of receipt, a precise description and valuation of the property and any other pertinent information the treasurer thinks is necessary.
8. In order to safeguard and control abandoned property, a periodic inventory should be taken where the physical existence of the property is checked with detailed inventory records. The physical inventory should be taken by someone who is not involved in the maintenance of inventory records or custody of property.

PRIOR AUDIT RECOMMENDATION NOT IMPLEMENTED: The unclaimed property division is not adequately enforcing an internal policy which requires notarized statements on reports submitted by holders of unclaimed property.

An internal policy of the State Treasurer's Office requires that statements made on the "Report of Unclaimed Property Verification and Checklist" (Form UP1) and the "Report of Unclaimed Property" (Form UP2 - pink copy--which is referred to as the remittance advice) be certified by a notary public. The statements, made by an authorized official representing the holders, document that the reports are true, correct, and complete. This feature provides a basis for reliance that the holders of unclaimed property are complying with the state laws governing the unclaimed property program.

During the prior audit we found a significant number of statements that were not notarized. We tested these statements again during the current audit and found that 2 of 30 UP1s and 7 of 30 UP2s did not contain notarized statements. The notarization of the UP2s is required when the remittance advice differs from the UP1 because owners have claimed certain property after the UP1 was filed. The State Treasurer's Office has not attempted to enforce the notarization of these statements, and as a result, many holders of unclaimed property are not complying with this policy.

RECOMMENDATION:

9. The unclaimed property division should enforce the requirement that statements on UP1 and UP2 reports made by holders of unclaimed property be certified by notary publics.

## OFFICE OF THE STATE TREASURER

The State Treasurer's Office is not adequately enforcing reporting deadlines established in Minn. Stat. Section 345.41(5)(d).

Minn. Stat. Section 345.41(5)(d) requires holders of unclaimed property to file reports of abandoned property by November 1 of each year, and the following June 30 (May 1 and December 31 for life insurance companies). If the first deadline is not met, an owners name may be improperly omitted from the advertisement of owners with claims over \$25. If the second deadline is not met, revenues are not properly reported to the state which assumes ownership of all unclaimed property until a valid claim is made against that property.

In our review, we found 14 of 30 reporting units did not meet the first deadline and 10 of 30 did not meet the second reporting deadline. (Interest penalties were assessed in only 2 of the 10 late filings.) The failure of such a large percentage of holders of unclaimed property to report to the State Treasurer's Office according to the aforementioned deadlines weakens the effective management of this program.

### RECOMMENDATION:

10. The State Treasurer should enforce reporting deadlines established under Minn. Stat. Section 345(5)(d).

## TREASURER'S OFFICE MANAGEMENT

There are inadequate controls over the distribution of payroll warrants at the State Treasurer's Office.

Payroll warrants for state employees are processed by the Department of Finance and are forwarded to the State Treasurer's Office where they are separated by department and distributed. Under current procedures, warrants are released to employees representing the various state departments after they sign their names on a listing identifying their department and the warrant numbers received. The major problem with this procedure is the failure of the State Treasurer's Office to request identification prior to releasing the warrants.

An important element of good internal control is the limiting of access to assets. The current situation allows for the possibility of an unauthorized person picking up the warrants, increasing the chances for errors or irregularities. Payroll expenditures amounted to over \$800 million in fiscal year 1982, and in order to rely on the internal controls relating to the processing of payroll warrants, stronger controls over the distribution of warrants must exist.

### RECOMMENDATION:

11. The State Treasurer's Office, in cooperation with the Department of Finance, should develop procedures for the distribution of payroll warrants that include:

## OFFICE OF THE STATE TREASURER

- requiring state agencies to designate certain employees as authorized to pick up payroll warrants at the State Treasurer's Office;
- having the Department of Finance prepare and maintain a list of the currently authorized employees for use by State Treasurer's Office personnel; and
- requiring the State Treasurer's Office to request identification of each employee picking up the warrants and matching the name to the authorized listing.

An inventory of fixed assets at the State Treasurer's Office is not taken on a periodic basis.

The State Treasurer's Office maintains an inventory of fixed assets costing approximately \$78,000. The inventory consists of items such as office equipment, computer equipment, calculators and furniture.

In our prior constitutional officer's audit, it was noted that a physical inventory at the State Treasurer's Office had not been taken since October, 1979. In our review of the inventory during the current audit, we found that a physical inventory still has not been completed. To ensure that internal controls over these assets are adequate, periodic physical inventories should be taken. The items per the physical inventory should then be reconciled to the inventory listing from the Inventory Management Division of the Department of Administration. The failure to complete a physical inventory on a periodic basis increases the risk that the assets reflected on the statewide physical inventory listing do not accurately reflect the assets on hand at the State Treasurer's Office.

Besides completing a physical inventory on a periodic basis to ensure that internal controls over these assets are adequate, the treasurer's office is also required by statute to complete an inventory upon the election of a new State Treasurer. Minn. Stat. Section 10.05 states that, "The furnishings and equipment of their several offices, and all supplies, books, stationery, and postage necessary for the proper transaction of the public business in their charge, shall be paid for by the state; and all property, files, records and documents of any kind appertaining to their respective offices shall be transferred to their successors, who shall give receipts and be accountable therefore." Thus, to comply with the statute, the State Treasurer's Office should have also completed a physical inventory in order to attest to the incumbent treasurer the assets transferred to him on January 3, 1983. This inventory had not been taken at the time of our review.

### RECOMMENDATION:

12. The State Treasurer's Office should:
  - take a periodic inventory of assets on hand;

## OFFICE OF THE STATE TREASURER

- compare and reconcile the inventory to the state property inventory listing; and
- establish procedures to attest to a new State Treasurer the assets on hand at the State Treasurer's Office as of the day the new term begins.

The administration of the fixed asset inventory records at the State Treasurer's Office needs improvement.

State agencies who maintain fixed asset inventories are required to comply with the policies and procedures of the Fixed Asset Inventory Management User's Manual. These policies and procedures include determining which items are to be included on the inventory listing, attaching property labels, and verifying the processing of any additions or deletions. While reviewing the State Treasurer's Office compliance with these policies, we found several problems, including:

- The failure to record items on the inventory listing. Several large items including computer equipment and a vacuum cleaner were not listed on the current inventory listing.
- Inaccurate coding of new purchases. When remodeling of the unclaimed property division facilities occurred, room dividers and capital equipment items were incorrectly coded to buildings, resulting in the dividers not being included in the fixed asset inventory listing.
- A failure to attach property tags on all capital equipment items. Several items did not have a property tag, including computer equipment, room dividers, a vacuum cleaner, and office equipment. This reduced the effectiveness of internal control.
- The inability to locate an item on the physical inventory listing. One item in our testing, a calculator, was not located. This diminishes the reliability of the inventory listing.
- The failure to verify the deletion of inventory items by the material management division of the Department of Administration. The User's Manual provides that agencies are responsible to verify the proper processing of additions or deletions to the inventory. Three regent terminals that were traded in were not deleted from the inventory listing by materials management. Although the State Treasurer's Office personnel submitted forms to delete these items, they did not verify that the forms were properly processed. This resulted in the overstatement of the fixed asset inventory.

The assortment of problems shown above indicates that the administration of the fixed asset inventory is not adequate. The State Treasurer's Office has not properly recorded or accounted for all of the fixed assets thereby reducing the reliability of the asset inventory listing.

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RECOMMENDATION:

13. The State Treasurer's Office should review its procedures on the recording and accounting for fixed assets to ensure that they comply with the policies and procedures of the Fixed Asset Inventory Management users manual.

The State Treasurer's inventory includes surplus or obsolete items.

The surplus property utilization division of the Department of Administration identified eight surplus inventory items at the State Treasurer's Office during their utilization audit (August 1981). Their recommendation to the treasurer was that, "All areas of the State Treasurer's Office should be reviewed periodically for any surplus or obsolete equipment on hand. All items identified as surplus or obsolete equipment should be reported to this division (surplus property utilization) on administration form 761."

In our review of the inventory at the State Treasurer's Office during the current audit, we found seven of the eight items previously identified as surplus or obsolete to still be on hand and not in use. Those items include: one drafting stool, three steno chairs, one fluorescent desk lamp, and two side armchairs.

The State Treasurer's inventory of fixed assets should only consist of those items being utilized, and any excess items should be reported to the surplus property utilization division so that other uses may be determined. The failure to report these items will result in excess costs from maintaining unused inventory.

RECOMMENDATION:

14. The State Treasurer should:
  - periodically review assets for any surplus or obsolete equipment on hand;
  - report any surplus equipment to the surplus property utilization division of the Department of Administration; and
  - take steps to dispose of the surplus items by transferring them to another department or selling them through the state surplus property sale.

OFFICE OF THE STATE TREASURER

PRIOR AUDIT RECOMMENDATION NOT IMPLEMENTED: The State Treasurer's Office needs to improve internal control over receipts collected in their office.

The treasurer's office obtains revenues from various programs including unclaimed property, real estate assurance fees, taxes and miscellaneous revenue from counties and other sources. The receipts from these programs amounted to \$4.5 million in fiscal year 1982.

During our review of the processing of these receipts, we found that the same person was receiving payments, preparing deposit slips, posting receipts to the accounting records and reconciling receipts to statewide accounting. A similar situation was also noted in our previous audit, and the treasurer's office responded that when practical, they will take the necessary steps to resolve this problem. However, as of this date we found that no improvements have been made. Good internal controls require that someone independent from the person processing receipts perform an internal verification of these receipts in order to prevent errors and irregularities. At the present time there exists a risk that receipts could be incorrectly recorded or diverted for unauthorized purposes.

RECOMMENDATION:

15. When the mail is received at the State Treasurer's Office:

- someone independent of the processing and accounting for the receipts should open the mail and promptly prepare a daily listing of all receipts; and
- the receipts list should be reconciled to the SWA receipts by deposit or receipts by appropriation reports by a person not responsible for the processing or depositing of those receipts.

PRIOR AUDIT RECOMMENDATION NOT IMPLEMENTED: The State Treasurer does not comply with Minn. Stat. Section 7.04 which requires the issuance of duplicate receipts for monies paid into the treasury by any county.

Minn. Stat. Section 7.04 provides that, "For all monies paid into the treasury by any county, the State Treasurer shall give duplicate receipts, one of which shall be sent to the treasurer and one to the auditor of the county." In our audit reports of 1977 and 1980, we stated that since all money received from counties is in the form of warrant checks which evidence the amount paid, the issuing of receipts to the counties serves no useful purpose. The State Treasurer maintains that the receipt requirement of the Legislature is satisfied by the endorsed cancelled check received by the county. However, a cancelled check is only one receipt, which does not satisfy the duplicate receipt requirement.

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During the current year's audit, we found that the State Treasurer has not acted on our prior audit recommendation to request the Legislature to amend Minn. Stat. Section 7.04. Since the requirement to issue duplicate checks is not economical, and since the practice of providing receipts for remittance received in the mail has been discontinued in other state agencies for some time, we repeat our prior audit recommendation.

RECOMMENDATION:

16. The Treasurer should request the Legislature to amend Minn. Stat. Section 7.04 by eliminating the requirement to write individual receipts to counties for monies collected.

OFFICE OF THE STATE TREASURER

EXHIBIT A

UNAUDITED, FOR INFORMATIONAL PURPOSES ONLY, SEE NOTE 1

STATEMENT OF APPROPRIATIONS, TRANSFERS, EXPENDITURES  
AND AVAILABLE BALANCE

Years Ended June 30, 1981 and 1982,  
and the Six Months Ended December 31, 1982

<u>General Fund</u>	<u>Years Ended June 30</u>		<u>Six Months</u>
	<u>1981</u>	<u>1982</u>	<u>Ended</u>
			<u>12/31/82</u>
State Appropriations	\$821,900	\$854,400	\$ 888,071
Appropriation Cancellations	(28,796)	(8,022)	
Transfers In:			
Salary Adjustments	91,076	55,707	92,121
Legislative Advisory Commission			68,000
Total Available	<u>\$884,180</u>	<u>\$902,085</u>	<u>\$1,048,192</u>
Expenditures - Note 2			
Personal Services	\$571,303	\$620,615	\$ 701,565
Rents and Leases	43,443	48,435	116,590
Advertising	65,729	37,795	40,000
Capital Outlay - Equipment	44,703	39,533	40,264
Repair Services	31,636	37,581	19,888
Printing and Binding	12,473	8,752	7,424
Professional and Technical Services	15,339	10,393	12,253
Data Processing and Systems			
Services	55,786	53,863	26,919
Purchased Services	1,755	2,199	1,763
Communications	21,445	23,881	20,674
Travel and Subsistence-In State	3,211	1,606	2,500
Travel and Subsistence-Out State	8,191	6,200	5,800
Supplies and Materials	7,271	9,145	7,650
Other	1,895	1,515	2,489
Total Expenditures	<u>\$884,180</u>	<u>\$901,513</u>	<u>\$1,005,779</u>
Available Balance - December 31, 1982	<u>\$ -0-</u>	<u>\$ 572</u>	<u>\$ 42,413</u>

OFFICE OF THE STATE TREASURER

EXHIBIT B

UNAUDITED, FOR INFORMATIONAL PURPOSES ONLY, SEE NOTE 1

STATEMENT OF APPROPRIATIONS AND BUDGET REDUCTIONS

Years Ended June 30, 1981 and 1982,  
and the Six Months Ended December 31, 1982

<u>General Fund</u>	<u>Years Ended June 30</u>		<u>Six Months</u>
	<u>1981</u>	<u>1982</u>	<u>Ended</u>
			<u>12/31/82</u>
Appropriations:			
Laws 1979, Chapter 333, Section 11	\$821,900		
Laws 1981, Chapter 356, Section 13		\$900,900	\$901,000
Appropriation Balance Carried Forward From Fiscal Year 1982 to Fiscal Year 1983		(21,500)	21,500
Budget Reductions:			
Laws 1981, Third Special Session Chapter 2, Article I, Section 2, Subd. 1(i)		(25,000)	(25,000)
Laws 1982, Chapter 641, Article I, Section 2, Subd. 1(j)			(9,429)
Available Appropriations	<u>\$821,900</u>	<u>\$854,400</u>	<u>\$888,071</u>

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EXHIBIT C

UNAUDITED, FOR INFORMATIONAL PURPOSES ONLY, SEE NOTE 1

STATEMENT OF DEPOSITED REVENUE

Years Ended June 30, 1981 and 1982,  
and the Six Months Ended December 31, 1982

	Years Ended June 30		Six Months
	1981	1982	Ended 12/31/82
<u>General Fund - Note 3</u>			
Deed Tax - Note 4	\$6,477,098	\$ 569,590	
Abandoned Property and Escheated Estates	1,150,146	1,969,387	\$ 692,482
Marriage Dissolution Fees		207,922	121,360
Marriage License Fees		467,798	330,235
Surcharge on Fines		178,728	152,661
Penalty on Traffic Offenses		416,253	955,347
Other	645	4,234	1,846
Total General Fund Revenue	\$7,627,889	\$3,813,912	\$2,253,931
Less: Revenue Refunds	(23,354)	(5,321)	(4,077)
Total General Fund	<u>\$7,604,535</u>	<u>\$3,808,591</u>	<u>\$2,249,854</u>
<u>Agency Fund</u>			
Real Estate Assurance	\$ 945,422	\$ 244,321	\$ 38,340
Abandoned Property	215,221	220,757	294,243
Total Agency Fund Revenue	\$1,160,643	\$ 465,078	\$ 332,583
Less: Revenue Refunds	(227,985)	(316,791)	(107,381)
Total Agency Fund	<u>\$ 932,658</u>	<u>\$ 148,287</u>	<u>\$ 225,202</u>
<u>Special Revenue Fund</u>			
Tax-Forfeited Land	\$ 142		
Total Special Revenue Fund	<u>\$ 142</u>	<u>\$ -0-</u>	<u>\$ -0-</u>
Total Revenue Deposited	<u>\$8,537,335</u>	<u>\$3,956,878</u>	<u>\$2,475,056</u>

## NOTES TO THE FINANCIAL STATEMENTS

- Note 1: The financial statements do not represent financial position or results of operations in accordance with generally accepted accounting principles. The Statewide Accounting (SWA) system reports through September 5, 1981, September 4, 1982, and December 31, 1982, were used in preparing these statements with adjustments for activity occurring subsequent to that date. Consequently, the statements were not prepared using the accrual basis of accounting.
- Note 2: The expenditures for years ended June 30, 1981 and 1982 include applicable disbursements and adjustments which occurred after the Statewide Accounting System cutoff dates. Expenditures for the six months ended December 31, 1982 include encumbrances totaling \$553,327 which were related to that period's activity.
- Note 3: The revenue deposited to the credit of the General Fund is non-dedicated and does not increase the available appropriation.
- Note 4: Responsibility for collection of the deed tax was transferred to the Department of Revenue effective in fiscal year 1982.

OFFICE OF THE STATE TREASURER

STATUS OF PRIOR AUDIT RECOMMENDATIONS  
AND  
PROGRESS TOWARD IMPLEMENTATION

The State Treasurer has not sold the abandoned (unclaimed) property in his custody as required by Minn. Stat. Section 345.47.

1. The State Treasurer should work with the Department of Administration to hold a public auction of unclaimed property in his custody.

RECOMMENDATION NOT IMPLEMENTED. See current recommendation #1.

Property received from escheated estates has remained in the treasurer's vault for several years.

2. The State Treasurer should work with the State Board of Investment to determine the proper disposition of all escheated property.

RECOMMENDATION NOT IMPLEMENTED. See current recommendation #2.

3. If escheated property is to be sold, the treasurer should consider combining the sale with public auctions of unclaimed property.

RECOMMENDATION NOT IMPLEMENTED. See current recommendation #3.

The balance in the trust account which was established to pay claims on abandoned property has exceeded the \$25,000 limit imposed by statute.

4. The State Treasurer's Office should work with the Department of Finance to monitor the balance in the abandoned property trust account to ensure it does not exceed \$25,000 at any given time, or seek legislation to change the restrictions imposed on the maximum amount.

RECOMMENDATION NOT IMPLEMENTED. See current recommendation #4.

Identification of unclaimed property in the custody of the State Treasurer needs improvement.

5. The State Treasurer should require holders of abandoned property to provide precise descriptions of property submitted or assume that responsibility once the property is received.

RECOMMENDATION NOT IMPLEMENTED. See current recommendation #5.

OFFICE OF THE STATE TREASURER

6. The State Treasurer should require holders of abandoned property to strictly comply with the valuation provisions of Minn. Stat. Section 345.32(D)(2).

RECOMMENDATION NOT IMPLEMENTED. See current recommendation #6.

Internal control over the abandoned property in the custody of the State Treasurer is weak.

7. A comprehensive listing of abandoned property received by the State Treasurer should be developed. The list should include the date of receipt, a precise description and valuation of the property, and any other pertinent information the treasurer thinks is necessary.

Recommendation Partially Implemented. See current recommendation #7.

8. In order to safeguard and control abandoned property, a complete periodic inventory should be taken when the physical existence of the property is checked against the detailed inventory records.

RECOMMENDATION NOT IMPLEMENTED. See current recommendation #8.

The unclaimed property division is not adequately enforcing an internal policy which requires notarized statements on reports submitted by holders of unclaimed property.

9. The unclaimed property division should enforce the requirement that statements on UP1 and UP2 reports made by holders of unclaimed property be certified by notary publics.

RECOMMENDATION NOT IMPLEMENTED. See current recommendation #9.

Travel advances received by employees of the State Treasurer's Office have not been settled within the time frame suggested by the Department of Finance.

10. The State Treasurer's Office staff should comply with the Department of Finance policies and procedures pertaining to the settlement of travel advances.

Recommendation Implemented.

OFFICE OF THE STATE TREASURER

Internal controls over receipts collected in the State Treasurer's Office need improvement.

11. When the mail is delivered to each section for processing:
- someone independent of the processing and accounting for the receipts should open the mail and promptly prepare a daily listing of all cash receipts; and
  - an independent third person should reconcile the receipts list to the SWA receipts by deposit or receipts by appropriation reports.

RECOMMENDATION NOT IMPLEMENTED. See current recommendation #15.

The State Treasurer does not comply with Minn. Stat. Section 7.04 which requires the issuance or duplicate receipts for monies paid into the treasury by any county.

12. The State Treasurer should request the Legislature to amend Minn. Stat. Section 7.04 by eliminating the requirement to write individual receipts to counties for monies collected.

RECOMMENDATION NOT IMPLEMENTED. See current recommendation #16.

Current long-term debt accounting procedures are inefficient.

13. When financially practical, the State Treasurer should implement the most efficient and economical method of accounting for transactions relating to cash balances with paying agents for state bonds and interest coupons matured but not redeemed.

Implementation in Progress. State Treasurer's Office personnel are currently reviewing the accounting procedures for general long-term debt.

The review of invoices for contractual services received has not been documented by program personnel who have knowledge of the work performed.

14. Written approval by program personnel having knowledge of work performed should be obtained before payment is made.

Recommendation Implemented.

OFFICE OF THE STATE TREASURER

RESPONSE OF THE FORMER STATE TREASURER

Former State Treasurer Jim Lord reviewed a copy of the management letter and agreed with Mr. Mattson's response. He did not wish to respond separately.



# STATE OF MINNESOTA

ROBERT W. MATTSON  
TREASURER

STATE EXECUTIVE COUNCIL  
STATE BOARD OF INVESTMENT  
TREASURER METROPOLITAN  
AIRPORTS COMMISSION

May 6, 1983

Mr. Gerald W. Christenson  
Legislative Auditor  
Veterans Service Building  
St. Paul, Minnesota 55155

Dear Mr. Christenson:

The attached comments are in response to your most recent audit of the State Treasurer's Office covering the period of July 1, 1980 through December 31, 1982.

These comments reflect our position and actions which will be or have been taken in response to your recommendations.

If you have any questions, please do not hesitate to contact me.

Sincerely,

A handwritten signature in cursive script that reads "Robert W. Mattson".

Robert W. Mattson  
State Treasurer

RWM:fs

RECOMMENDATION #1 RESPONSE

State Treasurer Mattson has asked the Unclaimed Property Division to undertake a complete review and study of the potential for public auction of unclaimed property which has been held more than one year. Included in this review will be an inventory and estimated value of property in storage, costs to the State Treasurer of holding an auction, including professional appraisal of items, auctioneer's fee, location and set-up costs. UPD will also discuss with other state agencies the possibility of coordinating and holding joint auctions.

RECOMMENDATIONS #2, 3 RESPONSE

The property from excheated estates will be appraised and sold along with safe deposit box contents at the auction.

RECOMMENDATION #4 RESPONSE

We will seek legislation to raise the limit in the trust fund to pay claims, by seeking a legislative change in FY '84.

RECOMMENDATION #5 RESPONSE

The State Treasurer is without statutory authority to require holders of abandoned property to provide precise descriptions. Minn. Stat. 345.32 (d) (2) requires them merely to value the total contents of the package. (See Recommendation #7)

RECOMMENDATION #6 RESPONSE

The Law requiring holders to report boxes that have been abandoned for five years was enacted in January of 1982. We will not feel the impact of Minn. Stat. 345.32 (d) (2) until June of 1983 when remittance is due on 1982 Reports of Unclaimed Property.

RECOMMENDATION #7 RESPONSE

Identification of unclaimed property in the custody of the State Treasurer has improved. The inventory for boxes received the last two years are now located in one central file. We feel the inventory of these boxes was adequately described by us when it was received. The inventories for safe deposit boxes turned over previously are located in the file of the bank reporting them to the Unclaimed Property Division. These inventories will be combined in one file when the review for the auction is completed.

RECOMMENDATION #8 RESPONSE

The State Treasurer will increase the control over the safe deposit box contents by having personnel not directly responsible for inventory periodically sample the validity of the inventory file.

## RECOMMENDATION #9 RESPONSE

The Unclaimed Property Division is aware that a number of holders reporting to this office do not comply with Minn. Stat. §345.41 (b) and 345.43 requiring notarized statements on their reporting forms. We have attempted to increase compliance by including the notarized statement requirement in our instruction page to the holders. The requirement is also noted on a separate fact sheet in the reporting packet that addresses frequently asked questions. In addition, a letter and the form are sent back when a remittance advice is received that is not notarized and the holder reports that they have reported in error or returned property to a reported owner.

Due to current budget constraints, we feel the added expense and manpower needed to send all reports back for notarization would be unjustified. However, we feel the notarization requirement is effective in most cases for compliance purposes and do not wish to remove it.

## RECOMMENDATION #10 RESPONSE

The Unclaimed Property Division has made continued attempts to enforce reporting deadlines established under Minn. Stat. §345.41 (d). The Division has worked with professional purveyors of information such as C T Corporation System and the Guide to Unclaimed Property and Escheat Laws to ensure that accurate, up-to-date information of legal requirements is available nationally. Special letters have been sent to selected groups of holders and to selected trade associations with the request that they pass the information along to their members.

The deadlines have been clearly and conspicuously set forth in several places in the report packet, viz.,

1. on the cover letter accompanying the report packet;
2. on the report forms (UP-2);
3. on the instructions.

Where no report is received by the second week following the report deadline, a reminder letter is sent to Minnesota holders requesting a report.

The UPA allows the Division to assess an interest penalty on those holders that do not remit their payment 85 days after advertising. A letter is sent to those delinquent holders making formal written demand for payment and informing them that an interest penalty will be assessed. Follow-up letters are sent until the remittance is received.

Owing to the expense of computing and mailing bills for interest penalties and sending follow-up demand letters, UPD has adopted an internal office policy of not assessing interest penalties of less than \$5.00 (if penalty does not come in with the remittance check).

RECOMMENDATION #11 RESPONSE

The State Treasurer will contact the Department of Finance in an effort to establish the necessary procedures or recommendation. The procedure will go into effect as soon as possible.

RECOMMENDATION #12 and #13 RESPONSE

The Treasurer's accounting staff will initiate procedures to conduct a complete fixed asset inventory. Periodic spot checks will then be conducted to maintain the accuracy of the fixed asset status at all times. To complete the inventory a review of asset procedures and record keeping will be conducted to insure that state standards are met.

RECOMMENDATION #14 RESPONSE

Our agency normally disposes of unuseable assets at the annual "garage sale" held each May and we would expect to do so again this year. Most of the surplus recorded is not in prime condition and therefore not worth listing with the surplus property division.

RECOMMENDATION #15 RESPONSE

The Treasurer's Office will again review the receipts collecting process to see if improvements can be made or are necessary. Due to funding reductions via legislative action we may not have the staff necessary to fully implement an extensive receipts processing system, but we will do as much as possible to comply with the audit recommendation where practical.

RECOMMENDATION #16 RESPONSE

The Treasurer, will seek legislation in the FY 84 legislature to eliminate the requirement to write receipts for county deposits.