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**OFFICE OF THE LEGISLATIVE AUDITOR**  
**STATE OF MINNESOTA**

Financial-Related Audit

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**Departments of Commerce and Public Service**  
**July 1, 1996, through December 31, 1999**



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## Financial Audit Division

The Office of the Legislative Auditor (OLA) is a professional, nonpartisan office in the legislative branch of Minnesota State government. Its principal responsibility is to audit and evaluate the agencies and programs of state government (the State Auditor audits local governments).

OLA's Financial Audit Division annually audits the state's financial statements and, on a rotating schedule, audits agencies in the executive and judicial branches of state government, three metropolitan agencies, and several "semi-state" organizations. The division also investigates allegations that state resources have been used inappropriately.

The division has a staff of approximately fifty auditors, most of whom are CPAs. The division conducts audits in accordance with standards established by the American Institute of Certified Public Accountants and the Comptroller General of the United States.

Consistent with OLA's mission, the Financial Audit Division works to:

- Promote Accountability,
- Strengthen Legislative Oversight, and
- Support Good Financial Management.

Through its Program Evaluation Division, OLA conducts several evaluations each year and one best practices review.

OLA is under the direction of the Legislative Auditor, who is appointed for a six-year term by the Legislative Audit Commission (LAC). The LAC is a bipartisan commission of Representatives and Senators. It annually selects topics for the Program Evaluation Division, but is generally not involved in scheduling financial audits.

All findings, conclusions, and recommendations in reports issued by the Office of the Legislative Auditor are solely the responsibility of the office and may not reflect the views of the LAC, its individual members, or other members of the Minnesota Legislature.

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**OFFICE OF THE LEGISLATIVE AUDITOR**  
State of Minnesota • James Nobles, Legislative Auditor

Representative Dan McElroy, Chair  
Legislative Audit Commission

Members of the Legislative Audit Commission

We have completed financial and compliance audits of the Department of Commerce and the Department of Public Service for the period from July 1, 1996 through December 31, 1999. We are distributing the two reports as a combined document since the two departments, except for the Weights and Measures Division of the Department of Public Service, were merged effective September 15, 1999, under the Governor's executive order.

The audit scope for the audit of the Department of Commerce included revenues for occupational licensing, enforcement and securities registration, and examination and assessment revenues. It also included payroll, rent, professional/technical services, communications, supplies, equipment, and grant expenditures. We also audited certain revenues and expenditures accounted for in special revenue funds. In addition, the scope included unclaimed property receipts and disbursements.

The audit report on the Department of Commerce contained 14 findings and recommendations. Several findings dealt with the administration of the department's unclaimed property program. Other findings dealt with fees the department collects. Refer to the Report Summary and individual report chapters for a further discussion of the report's findings and recommendations.

Our audit of the Department of Public Service included inspection fee revenue and administrative expenditures. Administrative expenditures covered during our audit primarily included payroll and travel costs. The report did not contain any findings and recommendations.

The reports on the Department of Commerce and the Department of Public Service are intended for the information of the Legislative Audit Commission and the management of the departments. This restriction is not intended to limit the distribution of this report, which was released as a public document on August 24, 2000.

*/s/ James R. Nobles*

James R. Nobles  
Legislative Auditor

*/s/ Claudia J. Gudvangen*

Claudia J. Gudvangen  
Deputy Legislative Auditor

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**OFFICE OF THE LEGISLATIVE AUDITOR**  
**State of Minnesota • James Nobles, Legislative Auditor**

Representative Dan McElroy, Chair  
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. James Bernstein, Commissioner  
Department of Commerce

We have audited the Department of Commerce for the period July 1, 1996, through December 31, 1999. The audit also included the financial activities of the Department of Public Service, which, except for its Weights and Measures Division, merged into the Department of Commerce on September 15, 1999. Included with this report is an audit report on the Weights and Measures Division, the only remaining division of the Department of Public Service.

Our audit scope for the Department of Commerce included revenues for occupational licensing, enforcement and securities registration, and examination and assessment revenues. It also included payroll, rent, professional/technical services, communications, supplies, equipment, and grant expenditures. We also audited certain revenues and expenditures accounted for in special revenue funds. In addition, the scope included unclaimed property receipts and disbursements. We discuss these areas more fully in the individual chapters of this report.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, as issued by the Comptroller General of the United States. Those standards require that we obtain an understanding of management controls relevant to the audit. The standards also require that we design the audit to provide reasonable assurance that the Department of Commerce complied with the provisions of laws and regulations significant to the audit. The management of the Department of Commerce is responsible for establishing and maintaining the internal control structure and for compliance with applicable laws and regulations.

This report is intended for the information of the Legislative Audit Commission and the management of the Department of Commerce. This restriction is not intended to limit the distribution of this report, which was released as a public document on August 24, 2000.

*/s/ James R. Nobles*

James R. Nobles  
Legislative Auditor

*/s/ Claudia J. Gudvangen*

Claudia J. Gudvangen, CPA  
Deputy Legislative Auditor

End of Fieldwork: June 2, 2000

Report Signed On: August 21, 2000

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# Department of Commerce

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### Audit Participation

The following members of the Office of the Legislative Auditor prepared the report:

Claudia Gudvangen, CPA	Deputy Legislative Auditor
Jim Riebe, CPA	Audit Manager
David Poliseño, CPA, CISA	Auditor-In-Charge
Laura Peterson, CPA	Auditor
Alan Sasse	Auditor
April Snyder	Auditor
Scott Tjomsland, CPA	Auditor
Valerie Wozniak	Student Worker
Ching-Huei Chen	Intern

### Exit Conference

We discussed the findings and recommendations with the following representatives of the Department of Commerce at the exit conference held on August 3, 2000:

James Bernstein	Commissioner
Miriam Stohl	Accounting Director
William Janisch	Personnel Director
Lee Spelbrink	Department CPA
Mike Blacik	Weights and Measures Director

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# Department of Commerce

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## Report Summary

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### Key Findings and Recommendations:

- The department did not adequately safeguard unclaimed property. We noted several weaknesses related to the unclaimed property program, including two prior audit recommendations that had not been implemented. The department collected about \$24 million in cash in fiscal year 1999, in addition to property received by the department and securities held by the trustee. We recommended that the department reconcile the unclaimed property database to the state's accounting system and bank records to ensure the accuracy of the financial information. The department also needs to inventory unclaimed property as received, improve physical security over unclaimed property, and make unclaimed property payments to other states in accordance with its agreements with those states. (Findings 1-5, pages 7-10)
- The department did not have an adequate audit trail between its receipt and licensing systems. The department collected about \$14.3 million in license revenues in fiscal year 1999. We recommended that the department consider integrating the two systems to avoid duplicate data entry and establish an adequate audit trail between the two systems to enhance controls. (Finding 6, page 13)
- We noted several findings dealing with the department's assessments and examination fees. The department did not follow state contracting procedures for special examiners and did not record all insurance field audit costs in its revolving fund. (Findings 8-12, pages 19-22)

### Other Key Audit Conclusions:

- The department's accounting controls generally provided assurance that material receipts were safeguarded, accurately recorded in the accounting system, and administered in compliance with applicable legal provisions.
- Commerce had adequate controls to provide assurance that material expenditures were based on management's authorization, recorded properly in the accounting system, and made in compliance with significant legal provisions.

### Background Information:

Effective September 15, 1999, the Governor, by executive order, merged the Department of Commerce and Public Service except its Weights and Measures Division. The combined department is responsible for regulating the financial services, energy, and telecommunications industries. In fiscal year 1999, the department collected about \$88 million and expended approximately \$63 million.

### Agency Response:

The department agreed with the audit findings and recommendations. It developed a corrective action plan to address the findings.

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## Chapter 1. Introduction

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The Governor, by executive order, merged the Department of Public Service into the Department of Commerce effective September 15, 1999. The merger combined all functions of the two departments except for the Department of Public Service's Weights and Measures Division, the only remaining division of that agency.

The Minnesota Legislature established the Department of Commerce in 1983 by combining the former Banking, Insurance, and Securities and Real Estate Departments. The department regulated Minnesota's financial services industry, including financial institutions, insurance, securities, and real estate. The principal mission of the department was to protect the rights and investments of consumers, to regulate the financial industry by administering statutes and rules, and to provide guidance to the industry to encourage its growth and stability. The department also licensed and regulated other professionals, such as cosmetologists and building contractors. Finally, the department administered the Unclaimed Property Program, which attempts to return unclaimed personal property held by financial institutions, or other holders, to the rightful owners.

The Legislature established the Department of Public Service in 1968. In 1980, the Legislature split the regulatory functions of the department by establishing the Public Utilities Commission as an independent body providing final judgments and orders. The Department of Public Service became the public's chief advocate and primary source of information for energy and telecommunications. The primary mission of the department was to ensure fair prices and reliable service by the state's gas, electric, and telephone utilities, develop Minnesota's energy policies, and enforce state laws and policies governing public utilities.

During the period covered by our audit, commissioners of the former Department of Commerce included David Gruenes (December 1995 to January 1999), David Jennings (January 1999 to August 1999), and Steve Minn (August 1999 to February 2000). Commissioners of the former Department of Public Service included Kris Sanda (January 1991 through December 1998), Ruth Grendahl (January 1999 to March 1999), and Steve Minn (March 1999 to February 2000). James Bernstein became the acting commissioner of the merged department in February 2000 and was appointed commissioner in August 2000.

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In fiscal year 1999, the two departments had combined revenues of approximately \$88 million and combined expenditures of approximately \$63 million. Table 1-1 shows the revenues and expenditures of each department for fiscal year 1999, excluding financial activities of the Weights and Measures Division of the Department of Public Service.

**Table 1-1**  
**Revenues and Expenditures**  
**Fiscal Year Ended June 30, 1999**

<u>Revenues:</u>	<u>Commerce</u>	<u>Public Service</u>	<u>Total</u>
Business Regulatory	\$39,819,963	\$ 6,515,495	\$46,335,458
Occupational Licensure	14,315,745	0	14,315,745
Taxes/Assessments	0	6,052,981	6,052,981
Interest on Investments	2,290,357	47,827	2,338,184
Other Revenues	289,290	1,184,734	1,474,024
Unclaimed Property (Net of Refunds) <sup>(1)</sup>	17,477,680	0	17,477,680
Total	<u>\$74,193,035</u>	<u>\$13,801,037</u>	<u>\$87,994,072</u>
<u>Expenditures/Other Disbursements:</u>			
Payroll	\$13,097,172	\$ 4,730,593	\$17,827,765
Grants <sup>(2)</sup>	15,095,000	2,680,712	17,775,712
Claims Paid	15,401,534	0	15,401,534
Professional/Technical Services	3,117,478	3,899,131	7,016,609
Communications	339,324	118,709	458,033
Rent	878,495	499,162	1,377,657
Supplies and Equipment	858,377	461,348	1,319,725
Travel	503,963	67,213	571,176
Loans and Advances	0	426,418	426,418
Other Expenditures	731,489	374,597	1,106,086
Total	<u>\$50,022,832</u>	<u>\$13,257,883</u>	<u>\$63,280,715</u>

(1) Unclaimed property revenues were reduced by \$6,000,643 for refunds paid in fiscal year 1999.

(2) Department of Commerce grants include \$15 million paid to the Minnesota Comprehensive Health Association to offset member assessments for plan losses. Department of Public Service grants are to support the Telecommunications Access for Communication-Impaired Persons (TACIP) program.

Source: Minnesota Accounting and Procurement System (MAPS).

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## Chapter 2. Unclaimed Property

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### *Chapter Conclusions*

*The Department of Commerce accurately recorded the cash activity related to unclaimed property in the state's accounting system. However, the department did not record some of its unclaimed property financial activity in the state's annual financial statements.*

*We found several control weaknesses where the department did not adequately safeguard unclaimed property. The department did not reconcile its unclaimed property database to the state's accounting system or to the bank statements. In addition, the department did not adequately control its inventory of the contents of unclaimed safe deposit boxes.*

*Finally, we found two instances where the department did not comply with finance-related legal provisions. The department did not deposit income from stock dividends and the sale of stock according to statute and did not pay reciprocity to other states according to the memorandums of understanding.*

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Minn. Stat. Chapter 345 requires holders of unclaimed property to transfer the property to the Department of Commerce. Examples of unclaimed property include savings accounts, certificates of deposit, safe deposit boxes, paychecks, travelers' checks, stocks and bonds, insurance proceeds, and tax refunds. The state considers property unclaimed if the owner does not provide evidence of any interest or control over the property in several years. The specific number of years depends on the type of property. The goal of the program is to return unclaimed personal property to the rightful owners. Table 2-1 shows the unclaimed property cash receipts and disbursements for fiscal years 1997 through 1999.

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**Table 2-1**  
**Unclaimed Property Cash Receipts and Disbursements**  
**by Fiscal Year**

	<u>1997</u>	<u>1998</u>	<u>1999</u>
Cash Receipts	\$19,879,031	\$17,467,817	\$23,950,198
Cash Disbursements	\$ 5,131,153	\$ 5,084,992	\$ 6,000,643

Source: Minnesota Accounting and Procurement System (MAPS).

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Holders of unclaimed property must report the names and last known addresses of the property owners to the Department of Commerce by November 1 each year. The department publishes

## **Department of Commerce**

the list of owners' names in major newspapers throughout Minnesota. The owners of the property can claim their property by contacting the Department of Commerce.

The fiscal services section deposits all checks received by the department as nondedicated revenue in the General Fund and sends the holder reports to the unclaimed property section. The unclaimed property section enters the information from the holder reports into the unclaimed property database. The department stores the contents of safe deposit boxes in two secured storage areas. The department receives property from 400 to 500 safe deposit boxes each year.

The department has an agreement with a fiduciary bank to directly receive all unclaimed securities deposits, to annually liquidate unclaimed securities held for three years or more, and to process approved transfers of shares. Holders of unclaimed securities remit the securities directly to the bank. As of December 31, 1999, the market value of the assets held at the trustee totaled \$21.6 million.

Owners of unclaimed property must submit a notarized claim form along with evidence of ownership. The clerks in the unclaimed property section receive the claim forms and verify the claimant's request to information in the unclaimed property database. The clerks then approve the claims and forward the paperwork to the fiscal service section for payment.

## **Audit Objectives and Methodology**

We focused on the following objectives during our audit of unclaimed property:

- Did the department accurately record the financial activity related to unclaimed property in the accounting system?
- Did the department adequately safeguard unclaimed property?
- Did the department comply with material finance-related legal provisions?

To answer these questions, we interviewed department staff to gain a general understanding of the internal controls related to unclaimed property. In addition, we analyzed financial data to ensure proper recording of cash receipts and disbursements in the state's accounting system. We tested certain unclaimed property received and disbursed to ensure the department accurately recorded the activity in the unclaimed property database and was obligated to pay the claims. Finally, we verified the existence of certain safe deposit boxes recorded on the unclaimed property database.

## **Conclusions**

The Department of Commerce accurately recorded the cash activity related to unclaimed property in the state's accounting system. However, as discussed in Finding 1, the department did not record some of its unclaimed property financial activity in the state's annual financial statements.

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We found two control weaknesses where the department did not safeguard unclaimed property. As discussed in Finding 2, the department did not reconcile its unclaimed property database to the state's accounting system or the bank statements. In addition, the department did not adequately control its inventory of the contents of unclaimed safe deposit boxes. Finding 3 addresses this issue.

We also found two instances where the department did not comply with finance-related legal provisions. As reported in Finding 4, the department did not deposit income from stock dividends and the sale of stocks into the state treasury according to Minnesota statutes. Finally, the department did not pay reciprocity to other states in accordance with the memorandums of understanding, as discussed in Finding 5.

### **1. The department did not report some financial activity related to its unclaimed property program on the state's financial statements.**

The Department of Commerce did not report certain unclaimed property assets and liabilities to the Department of Finance for inclusion in the state's annual financial statements. As reported in Finding 5, the department owed other states approximately \$5 million of unclaimed property revenue under a reciprocity agreement for Minnesota residents who have relocated to other states. In addition, as of December 31, 1999, the department's trustee bank held unclaimed stocks valued at about \$21.6 million. The state's financial statements did not include either of these amounts.

In addition, the financial statements did not include a reduction of escheat revenue and an offsetting current liability for the probable escheat property that will be ultimately paid to claimants. Governmental Accounting Standards Board Statement No. 21, *Accounting for Escheat Property*, governs the financial reporting requirements for escheat property. Over the last three fiscal years, the state paid out an average of \$5.6 million for reclaimed property. The financial statements did not reflect the estimated liability that would be paid out.

#### *Recommendation*

- *The Department of Commerce should work with the Department of Finance to ensure unclaimed property activity is properly recorded in the state's annual financial statements in accordance with generally accepted accounting principles.*

### **2. PRIOR FINDING NOT RESOLVED: The department did not ensure the accuracy of the financial information contained in its unclaimed property database.**

The Department of Commerce did not reconcile the financial information in its unclaimed property database to either the state's accounting system for cash transactions or the bank's records for unclaimed securities. The department tracks the unclaimed property activity on the database and pays claims based on information in the database. In fiscal year 1999, the program collected receipts totaling approximately \$24 million and paid about \$6 million in claims. The

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department did not periodically reconcile the cash receipts and disbursements recorded in the database to the cash transactions recorded on the state's accounting system. We tested 21 cash receipt transactions and found the department did not record \$2,294 of property on the unclaimed property database.

In addition, the department did not reconcile the unclaimed securities activity recorded in the database to the security activity recorded on the bank statements. At December 31, 1999, the value of the unclaimed securities totaled \$21.6 million. By not reconciling these records, the department cannot be assured the information in the unclaimed property database is correct. Incomplete or inaccurate payments could result.

### *Recommendation*

- *The department should reconcile the financial activity on the unclaimed property database to the information in the state's accounting system and the bank statements.*

### **3. PRIOR FINDING NOT RESOLVED: The department did not adequately safeguard the contents of unclaimed safe deposit boxes.**

The Department of Commerce did not inventory the contents of all unclaimed safe deposit boxes for over three years. The department received unclaimed property annually from the holders of abandoned safe deposit boxes. The department stored the contents of the safety deposit boxes in two secured areas. Holders submit safe deposit box contents in packages with a notarized seal and a list of the property. The notarized list remained with the contents of the boxes. Unclaimed property personnel entered the owner name, last known address, and the number of boxes received on the unclaimed property database based on holder remittance reports. The department did not, however, inventory the contents of all boxes upon receipt, did not make a separate record of the contents of the boxes, and did not match the boxes received with the owners recorded on the unclaimed property database. In addition, the department did not complete a physical inventory of all boxes received in prior years.

As part of our audit, we selected 20 safe deposit boxes from the unclaimed property database and verified that the contents of the box matched the inventory listing. The department could not locate one of those boxes. In addition, department staff informed us that it received one claim for another safe deposit box that it could not locate.

Also, the department had not changed the combination to its safe in several years. The department used two vaults; one vault contained a safe to secure the more valuable property. The department had not changed the combination to the safe after two former employees who knew the combination to the safe terminated employment with the department. Finally, the department had two locks on each vault but kept the two keys on the same key ring. The purpose of having two locks for each vault was to ensure that at least two employees were needed to access the vault at all times.

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To maintain effective control over the unclaimed property in its possession, the department needs to provide reasonable assurance that the assets are properly safeguarded. The department cannot be assured that its inventory is adequately safeguarded without conducting periodic physical inventories of unclaimed property, ensuring that it received the reported property, and better restricting access to the department's vaults and safe.

### *Recommendations*

- *The department needs to inventory the unclaimed property as received and institute procedures to periodically confirm the physical existence of unclaimed property.*
- *The department should restrict access to the vaults and safe by requiring that two separate employees maintain the keys to the vaults and by periodically changing the combination to the safe.*

#### **4. The department did not deposit certain unclaimed property receipts into the state treasury in a timely manner.**

The Department of Commerce did not deposit receipts from dividends and the sale of securities into the state treasury in a timely manner. Over an 11-month period, the department deposited dividend receipts and the proceeds from the sale of securities only twice. The department made the first deposit of \$3.8 million in July 1999 and the second deposit of \$660,408 in January 2000. The department contracts with a local bank to provide fiduciary functions. The department earns dividends and income from the sale of securities every month. The bank accounts for these transactions and notifies the department accordingly. However, the local bank maintains custody of the receipts until the department requests the bank to transfer the funds to the state treasury. Minn. Stat. Section 16A.275 requires state agencies to deposit receipts totaling \$250 or more daily into the state treasury unless the Department of Finance grants a waiver from this requirement. Commerce could work with Finance to establish a reasonable timeframe, such as monthly, in which to transfer the funds to the state treasury.

### *Recommendation*

- *The department should transfer investment receipts to the state treasury daily or obtain a waiver from the Department of Finance to deposit these receipts less frequently.*

#### **5. The department did not pay reciprocity to other states according to its memorandums of understanding.**

The Department of Commerce has not made reciprocity payments to other states as required by its memorandums of understanding. The state has reciprocity memorandums of understanding with about 25 other states. The memorandums of understanding require participating states to

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remit unclaimed property to the state of the owners' last known address within 180 days of receipt. During the audit period, the department only paid reciprocity to two states for unclaimed property it received between 1991 and 1994. As of March 2000, the department owed approximately \$5 million to other states.

### *Recommendation*

- *The department should make unclaimed property payments to other states according to its memorandums of understanding.*

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## Chapter 3. License Revenues

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### *Chapter Conclusions*

*The Department of Commerce's internal controls provided reasonable assurance that license receipts were properly collected, adequately safeguarded, and accurately recorded in the state's accounting system. For the items tested, the department complied with significant finance-related legal provisions concerning the collection of license fees. However, we found that the department did not have an adequate audit trail between its receipt and licensing systems. We also recommended that the department consider contracting with an armored courier service to transport its deposits to the bank.*

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The licensing division of the Department of Commerce licenses real estate agents and brokers, insurance agencies and agents, cosmetologists, notaries, and residential building contractors, among other professionals. Each occupation pays fees to the department in order to be licensed to provide services to the public in Minnesota. Real estate businesses and residential building contractors also pay additional fees into the Real Estate Education Research and Recovery Fund and the Building Contractors Recovery Fund, respectively. See Chapter 6 for more information about these funds. Table 3-1 provides information on the types of licenses administered by the department, the number of active licensees, and the license terms.

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**Table 3-1**  
**Summary of Current Licenses Issued**  
**As of January 2000**

<u>License Type</u>	<u>Active Licensees</u>	<u>License Term</u>
Notary Public	107,900	5 Years
Insurance Agent/Agency	61,700	2 Years
Cosmetology	29,800	3 Years
Real Estate	28,600	2 Years
Collection Agency	17,600	1 Year
Building Contractor	10,500	1 Year
Appraiser	2,600	2 Years
Insurance Adjuster	1,500	1 Year
Abstractor	600	1 Year
Reinsurance Intermediary	41	1 Year
Credit Service Organization	6	2 Years
Campground Sales Agent	5	1 Year

Source: Department of Commerce licensing reports.

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## Department of Commerce

Minnesota statutes specify the various fees and conditions for each license. Table 3-2 shows the receipts collected for six of the largest license types for fiscal years 1997, 1998, and 1999.

**Table 3-2**  
**Selected License Revenues**  
**by Type and Fiscal Year**

<u>License Type</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>Fees Recover Costs?</u>
Insurance Agent/Agency <sup>(1)</sup>	\$3,888,805	\$3,982,956	\$4,564,054	Yes
Real Estate	2,318,040	2,018,473	2,212,358	Yes
Residential Building Contractor <sup>(2)</sup>	1,541,170	1,623,385	1,772,016	No
Cosmetology	541,426	531,010	603,981	Yes
Collection Agency	438,705	506,680	635,750	Yes
Notary Public <sup>(3)</sup>	361,890	383,610	1,236,470	Yes

(1) The department recovers the total costs of regulating the insurance industry, including insurance agents and insurance companies.

(2) Although the fees charged to residential building contractors did not recover the department's regulatory costs for this program during the audit period, the department increased the fees from \$75 to \$100 for the 2000-2001 biennium.

(3) Notary Public fees increased significantly in fiscal year 1999 because it was a license renewal year.

Source: Minnesota Accounting and Procurement System (MAPS).

## Audit Objectives and Methodology

The primary objectives of our review of license revenues were as follows:

- Did the Department of Commerce's internal controls provide reasonable assurance that license receipts were accurately reported in the accounting records, adequately safeguarded, and administered in compliance with applicable legal provisions?
- For the items tested, did the Department of Commerce comply with significant finance-related legal provisions?

To meet these audit objectives, we interviewed Commerce employees to gain an understanding of the licensing and receipting process. We tested various license receipt transactions to determine if the department properly processed and accurately recorded the license revenues. We also tested a sample of receipt transactions to determine if Commerce complied with applicable legal provisions. Finally, we reviewed the department's process to safeguard its receipts.

## Conclusions

The Department of Commerce's internal controls provided reasonable assurance that license receipts were accurately reported in the accounting records and administered in compliance with applicable legal provisions and management's authorization. For the items tested, license

## Department of Commerce

receipts were adequately safeguarded and properly deposited into the state treasury. However, we found that the department did not have an adequate audit trail between its receipt system and licensing system, as discussed in Finding 6. Also, the department should consider contracting with an armored courier service to transport receipts to the bank, as discussed in Finding 7.

### **6. The Department of Commerce did not have an adequate audit trail between its receipt and licensing systems.**

The department's receipting and licensing systems are not integrated. Lack of integration resulted in an inadequate audit trail and a duplication of effort in entering data into the two separate systems. The cashier section receives the license fees and application forms and verifies the accuracy of the fees submitted. The cashier section enters the applicable cash receipt information into its computer system, prepares the daily deposit, and forwards the license information, such as a renewal form, to the license division. License division staff review the application forms for completeness and accuracy, enter the applicable license information into the computer system, and issue the license.

We found two weaknesses in this process. First, there is duplicate data entry of certain information into the two systems. Both the cashier and license divisions enter the information needed to complete their respective functions. In some cases, this results in a duplication of data entry efforts, and eventually duplicate data storage as the department maintains the data in two separate systems. The department has received an appropriation of \$1.4 million to reengineer its information systems and should address this duplication of effort concern within the scope of that project.

Secondly, the department did not maintain a proper audit trail between the two systems. We were unable to trace licenses issued from the license system to the corresponding receipt on the cash receipt system. We selected a sample of 49 licenses issued from the license system, and we could not locate 12 of the corresponding receipt transactions on the receipt system. Without an adequate audit trail between the licensing and receipt systems, there is no assurance that the department collected the proper fees for the corresponding number of licenses issued.

#### *Recommendations*

- *The Department of Commerce should consider integrating its receipt and licensing systems to avoid duplicate data entry into the two systems.*
- *The department needs to maintain an adequate audit trail between the licenses issued on the licensing system and the fee receipts recorded on the receipt system.*

### **7. The department could improve controls to safeguard its receipts in transit to the bank.**

The department did not use an armored courier service to safeguard receipts in transit to the bank and could place employees at risk by using staff to transport the daily receipts to the bank. The department collects a significant amount of receipts from regulated industries. The businesses

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pay the department by check. The department restrictively endorses the checks. The accounting personnel at the Department of Commerce transported receipts from the department to the bank. The current process subjects the department's receipts and its personnel to security and safety risks.

### *Recommendation*

- *The department should conduct a cost/benefit analysis to determine whether or not improving controls over receipts in transit to the bank by hiring an armored courier service would justify the additional costs.*

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## Chapter 4. Assessment and Examination Fee Revenues

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### *Chapter Conclusions*

*Generally, the Department of Commerce designed internal controls to provide reasonable assurance that assessment and examination fee receipts were properly collected, adequately safeguarded, accurately recorded in the state's accounting system, and managed in compliance with applicable legal provisions. However, we identified the following weaknesses:*

- *The department did not record about \$4.2 million of activity in the state's accounting system (MAPS) for insurance field audit work performed by an outside contractor.*
- *The department did not accurately assess certain costs to gas, electric, and telephone companies, resulting in minor differences.*
- *The department did not periodically review the rate charged for insurance desk audits.*

*Except for the following issues, the department complied with significant finance-related legal provisions concerning the collection of assessment and examination fees for the items tested. The Insurance Division did not follow proper contract requirements when it awarded a contract in excess of \$5 million. Also, the Financial Examinations Division did not charge interest on late payments for financial examination billings.*

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The Department of Commerce performs various audits or reviews of companies doing business in Minnesota. The department performs these functions to ensure that the companies comply with the applicable laws governing their particular industry. Minnesota statutes require the department to bill the companies for the services provided in regulating these industries. The divisions that provide these regulatory services include the Financial Examinations Division, the Insurance Division, and the Telecommunications and Energy Divisions.

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### Financial Examinations Division

The Financial Examinations Division regulates various banking and financial service activities in Minnesota, including banks, credit unions, trust companies, and other financial services companies. The division charters or licenses over 700 financial services organizations doing business at over 1,135 locations in Minnesota.

The division performs two types of reviews on these institutions. First, it performs onsite examinations at all state-chartered banks, trust companies, certificate investment companies, and thrift companies once every three years. The division bills the institutions for the direct hours applied to the audit multiplied by a calculated hourly rate. The rate for fiscal year 1999 was \$42.19.

The division recovers the other costs of the examinations program through an assessment charged against the regulated industry. The division includes costs such as non-examination salaries, travel expenses, Attorney General costs, and overhead costs. The division allocates the assessment to each industry based on the amount of actual regulatory hours spent during the previous fiscal year. The division then assesses each financial institution based on the proportion of the institution's assets to the industry's total assets. See Table 4-1 for a summary of receipt collections for fiscal years 1997, 1998, and 1999.

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**Table 4-1**  
**Financial Examination and Assessment Revenues**  
**For the Three Fiscal Years Ended June 30, 1999**

	<u>1997</u>	<u>1998</u>	<u>1999</u>
Bank Examinations	\$1,533,852	\$1,221,452	\$1,299,634
Credit Union Examinations	342,224	356,064	579,250
Bank Assessment	1,487,241	1,781,366	1,862,393
Credit Union Assessment	291,329	398,524	898,037

Source: Minnesota Accounting and Procurement System (MAPS).

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### Insurance Division

The Insurance Division has oversight responsibility for insurance companies doing business in Minnesota. The Insurance Division ensures that policyholders are protected against financially vulnerable insurance companies, provides oversight to ensure that policies sold meet the requirements of Minnesota statutes, and that rates charged are not insufficient or excessive.

The division performs onsite audits of domestic insurance companies every five years. Examiners review books and records of insurance companies to determine their financial position. The division bills the insurance companies for the actual time charged to the audit plus travel expenses. The division uses the rates established by the National Association of Insurance Commissioners (NAIC). The division also contracts with special examiners to perform audits it does not have the resources to conduct.

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The Insurance Division also performs desk audits on annual statements submitted by insurance companies. Minn. Stat. Section 60A.13 requires insurance companies to file an annual statement with the Department of Commerce. Division analysts audit insurance companies to determine current business conditions and to verify that the companies filed the information as required by the NAIC. The department collected approximately \$1 million per year for desk audit activities.

### **Energy and Telecommunications Divisions' Assessments**

The Energy Division's purpose is to ensure reliable, affordable, and environmentally sound energy supplies for Minnesota's residential, industrial, commercial, and small business utility consumers. The division enforces state statutes and policies regarding the regulation of gas and electric utilities, develops state energy policies, and promotes energy conservation and alternative energy development. The division also evaluates gas and electric utility rate and service proposals, depreciation rates, capital structures, affiliated interests, stray voltage issues, service area disputes, Integrated Resource Plans, certificate of need applications for new facilities, nuclear waste disposal plans, and acquisition and merger proposals.

The Telecommunications Division represents residential, industrial, commercial, and small business consumers in all aspects of the regulatory process to ensure that reliable telecommunication services are provided at reasonable rates. The division investigates telephone company policies and procedures, enforces state statutes and policies regarding telecommunications, and develops state telecommunication policies. The division also analyzes telephone company filings regarding rates, conditions of service, provision of service, and service area.

Minn. Stat. Chapters 216B and 237 authorize the department to recover its costs of performing duties related to public utilities and telecommunications from the gas, electric, and telephone companies operating in the state. The department assesses those companies for both direct costs and indirect costs. Direct cost assessments include the costs of activities related to specific projects. Indirect cost assessments include the costs of activities not related to specific projects. The department assesses direct costs to the specific companies and assesses indirect costs to all regulated companies. Minnesota statutes exclude municipalities and cooperative electric associations from indirect cost assessments.

The department traditionally billed direct cost assessments semi-annually. In fiscal year 1999, it billed direct assessments quarterly for the first time. Minnesota statutes require the department to bill indirect cost assessments quarterly. The department assesses estimated indirect costs to regulated gas, electric, and telephone companies. The assessment is based on the proportion of each company's revenue to the total revenues of all regulated companies in its industry. As part of the third quarter indirect cost assessments, the department must adjust the indirect cost assessments from the prior fiscal year to compensate for the difference between the estimated indirect costs assessed and the actual indirect costs.

Minnesota statutes also require the department to assess indirect costs related to alternative energy engineering activities separately. The department assesses those costs to regulated municipal and cooperative gas and electric companies operating in the state based on the

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proportion of each company's revenue to the total revenues of all companies included in the assessment. The department also bills alternative energy assessments quarterly, and as part of the third quarter assessment, adjusts the prior fiscal year assessments to compensate for the difference between the estimated alternative energy costs assessed and the actual alternative energy costs incurred.

Table 4-2 shows the breakdown of assessment revenue by type and fiscal year.

Assessment Type:	<u>1997</u>	<u>1998</u>	<u>1999</u>
Energy Direct	\$1,134,555	\$ 875,481	\$1,465,532
Energy Indirect	1,710,961	2,706,270	1,842,252
Telecommunications Direct	647,405	621,874	921,497
Telecommunications Indirect	751,718	851,956	692,912
Alternative Energy	154,214	170,069	189,067
Other	<u>532</u>	<u>189,243</u>	<u>18,202</u>
Total	<u>\$4,399,385</u>	<u>\$5,414,893</u>	<u>\$5,129,462</u>

Source: Minnesota Accounting and Procurement System.

## Audit Objectives and Methodology

The primary objectives of our review of assessment and examination fee revenues were as follows:

- Did the Department of Commerce's internal controls provide reasonable assurance that assessment and examination fee receipts were accurately reported in the accounting records, adequately safeguarded, properly deposited in the state treasury, and administered in compliance with applicable legal provisions and management's authorization?
- For the items tested, did the Department of Commerce comply with significant finance-related legal provisions concerning assessment and examination fee receipts?

To meet these audit objectives, we interviewed Department of Commerce employees to gain an understanding of the assessment and examination fee process. We tested various license revenue transactions to determine if the department properly processed and recorded the revenues. We also tested a sample of receipt transactions to determine if Commerce complied with applicable legal provisions.

## Conclusions

Except for the following issues, the department complied with significant finance-related legal provisions concerning the collection of assessment and examination fees for the items tested. The department did not follow proper contract requirements when it awarded a contract in excess

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of \$5 million, as discussed in Finding 8. Also, the department did not charge interest on late payments for financial examination billings, as presented in Finding 9.

Generally, the Department of Commerce designed internal controls to provide reasonable assurance that assessment and examination fee receipts were properly collected, adequately safeguarded, accurately recorded in the state's accounting system, and managed in accordance with legal requirements. However, we identified the following weaknesses:

- The Insurance Division did not record about \$4,150,000 of activity in MAPS for insurance field audit work performed by an outside contractor, as discussed in Finding 10.
- The Insurance Division did not periodically review the rate charged on insurance desk audits, as discussed in Finding 11.
- The department erroneously billed utility companies resulting in companies paying minor incorrect assessment amounts, as reported in Finding 12.

### **8. The Insurance Division did not follow proper contract procedures for its use of special examiners.**

In 1998, the Insurance Division contracted with a local CPA firm to conduct certain field audits. The insurance companies pay the costs of the services the CPA firm provides. Minn. Stat. Section 60A.03 allows the department to contract with special examiners to conduct field audits if the department does not have the resources to perform them. The department did not, however, follow certain key contracting requirements, as follows:

- The department did not issue a request for proposal (RFP) to solicit bids. The department identified potential contractors through various sources and sent vendors letters inviting them to bid on the contract. However, section 12 of the Department of Administration's Professional/Technical Contracts Manual requires agencies to prepare formal RFPs for any contracts over \$25,000. The RFP ensures that all potential contractors had an equal opportunity to submit bids. Without the RFP process, the department did not have assurance that it selected the best vendor at the best cost.
- The department did not prepare and execute the standard state contract with the selected vendor. After the department selected its vendor, it entered into a memorandum of understanding with the vendor. Only the department and the vendor signed the memorandum. Using the standard state contract helps ensure that the state's rights are protected when contracting with vendors. Also, section 15 of the State Department of Administration's Professional/Technical Contracts Manual requires that the Attorney General and the Commissioner of Administration approve the final contract.

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### *Recommendations*

- *The department should issue a request for proposal when contracting for services over \$25,000.*
- *The department should prepare and execute proper state contracts that include the Attorney General's and the Commissioner of Administration's signatures.*

### **9. The Financial Examinations Division did not charge interest penalties to institutions for late payments.**

The Financial Examinations Division did not charge late fees to institutions that submitted payments late. The department bills financial institutions for onsite examinations and annual assessments. Minn. Stat. Section 46.131, subd. 9 requires assessments or fees be paid by the institution within 20 days after a statement of the amount has been submitted to the institution. The interest penalty is to be calculated as specified in Minn. Stat. Section 549.09. Our testing of 38 transactions disclosed that 14 institutions paid their invoices late and did not pay the required late fee. Of the 14 late payments, 13 were for more than \$10,000, and seven were more than 19 days late.

### *Recommendation*

- *The department should assess a late fee to all institutions that did not pay their invoices on time.*

### **10. The Insurance Division did not record all of its insurance field audit costs in its Examination Revolving Fund.**

The Insurance Division did not record its special examiner costs in the Examination Revolving Fund. For calendar year 1999, the special examiner costs totaled about \$4.2 million. As discussed in Finding 8, the department contracted with special examiners to complete its field audits. Initially, the vendor performed the audit and billed the department on a monthly basis. The department paid the bill out of its revolving fund and, in turn, billed the insurance company for the applicable amount. The department received the payment from the insurance company and deposited the proceeds into the revolving fund.

However, in January 1999, the department changed this process. Due to increased special examiner costs, the department could no longer pay the bill and wait for the insurance company payment without the fund experiencing a deficit. Therefore, the department received the vendor's bills and reviewed them. However, the department sent the bills to the applicable insurance companies and instructed them to pay the vendor directly. The department did not record the payments or the receipts in its Examination Revolving Fund. However, Minn. Stat. Section 60A.03, subd. 5 states that, "All of these [examination] fees and expenses must be paid

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into the department of commerce revolving fund.” Further, subd. 6 states that, “[Examination Revolving Fund] shall be used for the payment of per diem salaries and expenses of special examiners...” By not recording this activity in the revolving fund, the department is not reflecting the total costs of conducting insurance company field examinations. Also, because the department did not record these transactions on MAPS, the state is not recognizing these amounts in its annual financial statements. To avoid incurring a deficit in the fund because of the timing of the collection of the insurance company payment, the Department of Finance has the authority to make cash advances from the General Fund according to Minn. Stat. Section 16A.129, subd. 3.

### *Recommendation*

- *The department should record the special examiner payments and the applicable receipts in its Examination Revolving Fund and work with the Department of Finance to receive cash advances to cover payments from the fund, if necessary.*

### **11. The Insurance Division did not periodically review its insurance desk audit hourly rate.**

The Insurance Division performs desk audits on insurance companies doing business in Minnesota and bills its costs at an hourly rate. In 1992, the department established an hourly rate for desk audits of \$62.45. It has not adjusted the rate since that time. The department needs to periodically review the rate calculation to determine if the current rate accurately reflects the actual costs of performing insurance desk audits.

### *Recommendation*

- *The department should periodically review its desk audit hourly rate to ensure that it accurately reflects the audit costs.*

### **12. The Energy and Telecommunications Divisions did not accurately assess certain costs to gas, electric, and telephone companies.**

We found several minor errors in the department’s assessments charged to gas, electric, and telephone companies.

- The department did not adjust direct assessments that it calculated based on preliminary information after current information became available. This resulted in some companies being undercharged and some companies being overcharged for direct costs. According to Minn. Stat. Section 216B.62, subd. 2 and Section 237.295, subd. 1 (c), a company’s direct assessments cannot exceed two-fifths of one percent of the company’s gross operating revenue in the last preceding calendar year. If the prior year’s information was not available at the time the department calculated the direct assessments, staff used the gross operating revenue from two years prior to calculate the maximum direct assessment allowed. If the company’s gross revenues were higher than

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the estimate, the maximum assessment calculation was too low and the department undercharged the company. Conversely, if the gross revenues were lower than the department's estimate, the company was overcharged. We found lost revenue amounts ranging from \$102 to \$6,631. We also found overcharges ranging from \$13 to \$66.

- The department misallocated fiscal year 1999 indirect administrative costs between electric and telephone companies. It also misallocated fiscal year 1999 indirect Energy Division costs between electric and gas companies. In fiscal year 1999, the department erroneously included direct costs in the calculation of the indirect cost allocation, thereby double-counting those costs. As a result of the error, the department undercharged electric companies by \$25,394 for fiscal year 1999 indirect assessments, overcharged gas companies by \$10,550, and overcharged telephone companies by \$14,844.
- The department overcharged gas and electric companies for fiscal year 1998 indirect alternative energy costs. After it calculated the actual indirect alternative energy costs for fiscal year 1998, the department reduced the total to account for reimbursements it received for costs related to damaged equipment. However, the department used the original amount in the assessment. As a result of the error, the department overcharged gas and electric companies by \$12,298.

### *Recommendations*

- *When the department uses preliminary information to compute assessments, it should recalculate the maximum assessments when current information becomes available and ensure that it bills companies appropriately based on the revised calculation.*
- *The department should adjust its direct assessment billings for companies whose direct costs were either significantly increased or decreased based on the erroneous calculation of the maximum assessment limitation.*
- *The department should adjust fiscal year 1999 indirect cost assessments and fiscal year 1998 indirect alternative energy cost assessments to correct the allocation errors.*

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## Chapter 5. Enforcement and Securities Registration Revenues

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### *Chapter Conclusions*

*The Department of Commerce designed internal controls to provide reasonable assurance that enforcement and securities registration receipts were properly collected, adequately safeguarded, and accurately recorded in the state's accounting system and made in compliance with legal provisions. The department complied with significant finance-related legal provisions concerning the collection of enforcement and securities registration fees for the items tested.*

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The Enforcement Division works directly with consumers and the public, as well as those licensed by the Department of Commerce. The division receives calls from the public, investigates complaints, and enforces state laws pertaining to the sellers of financial products, residential building contractors, roofers, cosmetologists, notaries, appraisers, and abstractors.

Each year, the enforcement staff responds to about 60,000 inquiries and complaints. The department refers about 8,000 complaints per year to the department's enforcement personnel for formal investigation. The commissioner may take administrative enforcement actions, such as issuing cease and desist orders or revoking licenses, in cases where regulations or rules have been violated.

The department is also responsible for regulating securities registrations. All securities offered or sold in Minnesota must be either registered or exempt from registration, unless they are federally covered securities. The division ensures that products sold in Minnesota meet minimum standards of fairness and disclosure. Investment companies pay an initial securities application (notice) fee of \$100 plus 1/20<sup>th</sup> of one percent of the maximum aggregate-offering price. The initial application fee for all other securities costs \$100 plus 1/10<sup>th</sup> of one percent of the maximum aggregate-offering price up to \$300. The department charges \$100 for all annual reports. The department collected about \$23 million per year for securities registration. Enforcement and securities registration receipts are deposited into the General Fund as nondedicated revenue.

### **Audit Objectives and Methodology**

The primary objectives of our review of enforcement and securities registration revenues were as follows:

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- Did the Department of Commerce’s internal controls provide reasonable assurance that enforcement and securities registration receipts were accurately reported in the accounting records, adequately safeguarded, properly deposited in the state treasury, and administered in compliance with applicable legal provisions and management's authorization?
- For the items tested, did the Department of Commerce comply with significant finance-related legal provisions concerning enforcement receipts?

To meet these audit objectives, we interviewed Commerce employees to gain an understanding of the receipts process. We tested various samples of enforcement and securities revenues to determine if the department collected the proper amount of revenue and accurately processed and recorded the revenue. We also tested a sample of receipt transactions to determine if Commerce complied with applicable legal provisions.

### **Conclusions**

The Department of Commerce designed internal controls to provide reasonable assurance that enforcement and securities registration receipts were properly collected, adequately safeguarded, and accurately recorded in the state’s accounting system. The department complied with significant finance-related legal provisions concerning the collection of enforcement and securities registration fees for the items tested.

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## Chapter 6. Special Revenue Fund Revenues and Expenditures

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### *Chapter Conclusions*

*The Department of Commerce established a system of internal controls that provided reasonable assurance that the following program revenues and expenditures were properly administered, accurately accounted for, and complied with significant legal provisions: Telecommunications Access for Communications-Impaired Persons (TACIP) revenues and expenditures; Petroleum Tank Release Cleanup Fund payments to claimants; and revenues and expenditures of the Real Estate Education, Research, and Recovery Fund and the Contractors' Recovery Fund. For the items tested, these programs were administered in compliance with significant legal provisions.*

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The department administers several programs that are accounted for in special revenue funds. The following sections highlight the special revenue fund programs included in our audit scope.

### **Telecommunications Access for Communications-Impaired Persons (TACIP)**

The TACIP unit is responsible for providing accessibility to the Minnesota telephone network for communication-impaired persons. The state funds this program through a surcharge on all wire and non-wire access telephone lines in Minnesota. Currently, the state charges a rate of \$.12 per wire access line and \$0.17 for each non-wire access. The phone companies collect the surcharge from their customers and remit this surcharge to the Department of Administration. The Department of Administration then transfers the funds to the Department of Commerce's TACIP account. Revenue received by the department for TACIP for fiscal years 1997, 1998, and 1999 totaled \$7,215,228, \$7,665,699, and \$6,052,981, respectively. Revenues decreased in fiscal year 1999 because the department changed its fee structure when it began assessing charges for wireless access lines. In fiscal year 1999, TACIP expenditures totaled about \$6.2 million.

### **Petroleum Tank Release Cleanup Fund**

The Legislature created the Petroleum Tank Release Cleanup Fund, or Petrofund, in 1987 to reimburse owners for costs incurred to clean up releases from their underground and aboveground storage tanks. The department reimburses the claimants for these services if it determines the costs are both reasonable and allowable. The department expended \$33 million in fiscal year 1997, \$22.4 million in fiscal year 1998, and \$15.5 million in fiscal year 1999 to reimburse claimants for clean up costs. The Environmental Protection Agency (EPA) required all petroleum tanks to be upgraded by 1998 to reduce chances of environmental contamination.

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The expenditures are funded through a fee collected by the Department of Revenue. The Department of Revenue collects a \$0.02 per gallon fee from bulk petroleum distributors to fund this program. We did not audit program revenues during this audit.

### Real Estate Education, Research, and Recovery Fund

The Real Estate Education, Research, and Recovery Fund reimburses consumers for losses resulting from fraudulent practices committed by licensed brokers, salespersons, and closing agents. The fund also finances real estate-related educational activities and provides information to the public on housing issues. To be eligible, claimants must obtain a judgment against the licensee prior to receiving payment. The statute limits payments from the fund to \$150,000 per claimant per transaction and limits total claims against a licensee to \$250,000. Table 6-1 shows the financial activity in the fund for the last three fiscal years.

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**Table 6-1**  
**Real Estate Education, Research, and Recovery Fund**  
**Summary of Financial Activity**  
**For the Three Fiscal Years Ended June 30, 1999**

	<u>1997</u>	<u>1998</u>	<u>1999</u>
Beginning Fund Balance	\$1,421,500	\$1,937,131	\$2,406,840
Receipts	946,763	879,341	942,399
Disbursements	<u>(431,132)</u>	<u>(409,632)</u>	<u>(403,937)</u>
Ending Fund Balance	<u>\$1,937,131</u>	<u>\$2,406,840</u>	<u>\$2,945,302</u>

Source: Prepared by the Department of Commerce.

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### Contractors' Recovery Fund

The department also administers the Contractors' Recovery Fund. The department charges licensed residential contractors an additional fee ranging from \$100 to \$200 based on their gross annual receipts. The fund compensates consumers defrauded by licensed residential contractors. Consumers must obtain a judgment in court against the contractor before applying for reimbursement from the fund. The state limits claims to \$50,000 per claimant and \$50,000 per licensee. Table 6-2 shows the financial activity in the fund for the last three fiscal years.

## Department of Commerce

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**Table 6-2**  
**Contractors' Recovery Fund**  
**Summary of Financial Activity**  
**For the Three Fiscal Years Ended June 30, 1999**

	<u>1997</u>	<u>1998</u>	<u>1999</u>
Beginning Fund Balance	\$1,974,013	\$2,596,825	\$2,822,231
Receipts	1,032,452	1,092,397	1,177,026
Disbursements	<u>(409,640)</u>	<u>(866,991)</u>	<u>(773,218)</u>
Ending Fund Balance	<u>\$2,596,825</u>	<u>\$2,822,231</u>	<u>\$3,226,039</u>

Source: Prepared by the Department of Commerce.

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### Audit Objectives and Methodology

The primary objectives of our review of special revenue fund financial activities related to the following questions:

- Did the Department of Commerce's internal controls provide reasonable assurance that the department received and accurately recorded the proper amount of revenue for the Telecommunications Access for Communications-Impaired Persons (TACIP) program based on information provided by the Department of Administration, and that the program revenues complied with significant finance-related legal provisions?
- Were the department's controls over contract payments to vendors for TACIP adequate to provide assurance that the payments were for a proper purpose, accurately recorded in the accounting system, and in compliance with relevant legal provisions?
- Did the department's internal controls provide reasonable assurance that Petroleum Tank Release Cleanup Fund payments to claimants were authorized, accurately recorded in the accounting records, and made in compliance with applicable legal provisions?
- Did internal controls at the department provide reasonable assurance that disbursements from the Real Estate Education Research and Recovery Fund and the Contractors' Recovery Fund were made for a proper purpose, accurately recorded in the accounting records, and made in accordance with applicable finance-related legal provisions?

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To answer these questions, we made inquiries of the department's staff to gain an understanding of each of the program areas included in the audit scope. We tested a sample of transactions to ensure that the transactions were authorized and to determine if controls were operating as described. We also tested for compliance with applicable legal provisions.

### Conclusions

The department's internal controls, related to the specific objectives stated above, provided reasonable assurance that the department properly administered and accounted for the revenues and expenditures included in the audit scope. For the items tested, the department complied, in all material respects, with applicable legal provisions. However, in Finding 13, we recommend that the department periodically review the financial position of the recovery funds to determine if the fees are appropriate.

#### **13. The Department of Commerce has not analyzed the financial position of its recovery funds.**

The department has not analyzed the revenues, expenditures, and respective fund balances of the Real Estate Education, Research, and Recovery Fund and the Contractor's Recovery Fund to determine whether fees or program initiatives need to be modified. Tables 6-1 and 6-2 show that the department collected significantly more receipts in each fund than it disbursed over the last three years. As a result, the Real Estate Education, Research, and Recovery Fund and the Contractor's Recovery Fund had ending fund balances of \$2,945,302 and \$3,226,039, respectively, as of June 30, 1999. The recovery funds are used to compensate consumers defrauded by licensees employed in these industries. The real estate fund also supports education and research projects. In both cases, the department assesses the licensees a fee that it deposits into the applicable fund. The fee amounts are set in statute. The department pays the claims and other allowable charges from the collected fees.

It is impossible to predict the exact amount needed each year to pay out claims from the recovery funds. It appears, however, that both funds have sufficient reserves to cover expected claims for several years without collecting any more receipts. The real estate recovery fund balance more than doubled between fiscal years 1997 and 1999. During the same time frame, the fund balance of the contractor's recovery fund increased by about \$1.3 million.

The department should periodically review the activity in each of the funds and determine an acceptable level of reserves. If the ending fund balance exceeds the required reserve amount, the department should take steps to stabilize the balance. The department could seek legislative approval to either reduce the fee it charges the license holders, or suspend the fee until the reserves reach the designated level. The department could also decide to fund additional research and education projects from the real estate fund.

#### *Recommendation*

- *The department should periodically review the financial position of the recovery funds and adjust fees or approve additional projects as appropriate.*

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## Chapter 7. Payroll

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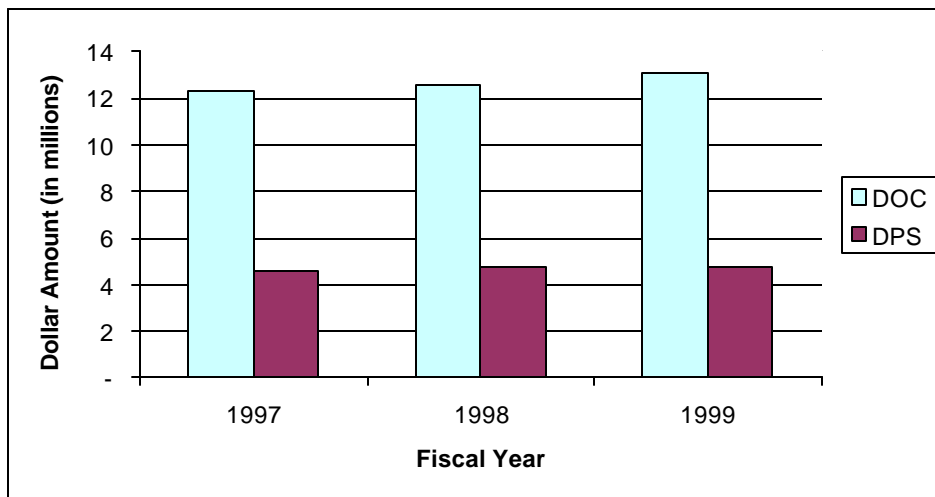
### *Chapter Conclusions*

*The Department of Commerce designed internal controls that provided reasonable assurance that employee payroll transactions were accurately recorded on the state's accounting system and complied with applicable legal provisions and management's authorization. Although job descriptions were not current and performance reviews were not always done timely prior to May 1999, the department initiated actions to correct these deficiencies since the merger.*

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Employee payroll represents the largest administrative expenditure for the Department of Commerce. After the merger (September 1999), the department maintained separate payroll functions. However, it did merge the human resource functions into one office. In fiscal year 1999, the Department of Commerce had payroll costs of about \$13.1 million. The Department of Public Service had payroll costs of approximately \$4.7 million during the same period. Figure 7-1 shows the two departments' payroll costs summarized by fiscal year.

**Figure 7-1**  
**Summary of Payroll Expenditures by Fiscal Year**



Source: Minnesota Accounting and Procurement System.

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Department of Commerce and Public Service employees belong to various unions that include the following compensation plans:

- American Federation of State, County, and Municipal Employees (AFSCME)
- Minnesota Association of Professional Employees (MAPE)
- Middle Management Association (MMA)
- Managerial Plan
- Commissioner's Plan

## **Audit Objectives and Methodology**

The primary objectives of our review of payroll expenditures related to the following questions:

- Were all payroll transactions approved and properly recorded on the state's accounting system?
- Were payroll expenditures administered in compliance with material finance-related legal provisions, including the state's various bargaining agreements?

To answer these questions, we made inquiries of the department's staff to gain an understanding of the payroll and personnel process. We tested a sample of payroll transactions to ensure that the transactions were authorized and to determine if controls were operating as described. Finally, we tested the commissioner's salary to ensure it did not exceed 85 percent of the Governor's salary.

## **Conclusions**

The Department of Commerce designed internal controls that provided reasonable assurance that employee payroll transactions were accurately recorded on the state's accounting system and made in compliance with applicable legal provisions and management's authorization. We did note, however, that prior to May 1999, job descriptions were not current, and performance reviews were not always done in a timely manner. The Department of Finance addressed these concerns to the Department of Commerce in a May 1999 internal audit report. At the time of our audit, the department had hired a consultant to review all of the clerical positions, prepare job descriptions, and place each employee at the proper job classification. The review had not been completed prior to the end of our audit fieldwork.

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## Chapter 8. Administrative Expenditures

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### *Chapter Conclusions*

*The department's internal controls provided reasonable assurance that administrative expenditure transactions were accurately recorded in the accounting records and made in compliance with applicable legal provisions and management's authorization. For the transactions tested, expenditures were made for goods and services received and for a proper purpose based on the mission of the department. However, we found that the department did not adequately safeguard its fixed assets.*

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Administrative expenditures included payments for non-payroll items, such as rent, professional/technical services, communications, supplies and equipment, and grant expenditures. Refer to Table 1-1 for a breakdown of the administrative expenditures for fiscal year 1999. The following discussion provides some background information regarding the major types of administrative expenditures incurred by the department.

Prior to the merger, the Department of Commerce and the Department of Public Service each rented separate office space in downtown St. Paul. Rent expenditures in fiscal year 1999 for the two departments totaled about \$1.4 million. The department plans to consolidate both offices and relocate to a new location in the fall of 2000.

The Department of Commerce enters into contractual agreements with outside vendors for certain professional and technical services. The department generally follows a bidding and contracting process for these services. As discussed in Chapter 4, in calendar year 1999, the Insurance Division of the Department of Commerce paid \$4.2 million under a contract with a CPA firm to perform insurance field examinations. The department also incurred large contract service expenditures for telephone services for the hearing impaired (TACIP). In fiscal year 1999, those contract expenditures totaled over \$2 million.

The department routinely purchases office supplies and equipment, including computers and peripherals. When a division needs supplies or equipment, staff complete a requisition form that is approved by a supervisor. The business office receives the approved requisition forms and completes the purchase.

For fiscal years 1998 and 1999, the department received a \$30 million appropriation earmarked for the Minnesota Comprehensive Health Association (MCHA). The nonprofit association was created under the Minnesota Comprehensive Health Insurance Act of 1976. It makes health insurance available to Minnesota residents who would otherwise be unable to obtain insurance. Membership includes all insurers, self-insurers, health maintenance organizations, etc. Contributing member companies are assessed amounts to reimburse MCHA for claims and other

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expenses in excess of revenues less losses reimbursed from legislative appropriation. The department made two payments to MCHA of \$15 million each in January 1998 and January 1999 to offset plan losses.

### Audit Objectives and Methodology

The primary objectives of our review of administrative expenditures were as follows:

- Did the Department of Commerce's internal controls provide reasonable assurance that administrative expenditures were accurately reported in the accounting records, adequately safeguarded, and made in compliance with applicable legal provisions and management's authorization?
- For the items tested, did the Department of Commerce comply with significant finance-related legal provisions concerning administrative expenditures?

To meet these audit objectives, we interviewed the department's employees to gain an understanding of the procurement and disbursement processes. We reviewed a sample of administrative expenditures to determine if the department properly authorized, processed, and recorded the expenditures. We also reviewed the sample of expenditures to determine if the department complied with applicable legal provisions. Finally, we reviewed the department's process to record, track, and safeguard its fixed assets.

### Conclusions

The Department of Commerce's internal controls provided reasonable assurance that administrative expenditure transactions were accurately reported in the accounting records and in compliance with applicable legal provisions and management's authorization. For the items tested, expenditures for goods and services were made for a proper purpose based on the mission of the department. However, we found that the department did not adequately safeguard its fixed assets, as discussed in Finding 14.

#### **14. The Department of Commerce did not adequately safeguard its fixed assets.**

The department did not have an up-to-date list of its fixed assets. As of April, the former Department of Commerce's fixed asset list contained approximately 1,500 items with an original cost of about \$398,000. We tested a sample of 12 fixed assets recorded on this list. We could not locate three of the assets. According to department staff, two of the assets had been retired but had not been deleted from the fixed asset list. The purpose of the fixed asset list is to account for the department's fixed assets and to assign responsibility for those assets. Without an up-to-date record, fixed assets could be lost or stolen without the department detecting the problem in a timely manner. Inaccurate fixed asset records would also misstate the value of the department's fixed assets.

We also found that the department had not conducted a complete physical inventory in the last few years. Staff were unsure when the last complete physical inventory was conducted. The

## Department of Commerce

Department of Administration's property management procedures require state agencies to conduct a physical inventory every two years. Periodic physical inventories help ensure that the department's fixed asset records are accurate and that assets are adequately safeguarded. Results of physical inventory counts could highlight the need to change record keeping procedures or controls to safeguard assets.

### *Recommendation*

- *The department should maintain a current record of its fixed assets and conduct periodic physical inventories to ensure that the fixed assets list is accurate.*

**Department of Commerce**

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**Status of Prior Audit Issues  
As of June 2, 2000**

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**Legislative Audit Report 97-50**, issued in September 1997, covered the two fiscal years ending June 30, 1997, for the Department of Commerce. The selected scope audit focused on revenues and expenditures of the Financial Examination, Registration and Insurance, and the Administrative Services Divisions. The report did not include any written findings.

**Legislative Audit Report 96-31**, issued in August 1996, covered the three fiscal years ending June 30, 1995, for the Department of Commerce. The selected scope audit focused on the financial activities of the Enforcement and Licensing Division and payroll for the entire department. Two prior findings regarding unclaimed property are repeated in Findings 1 and 3 in Chapter 2 of this report. The Department of Commerce resolved the other findings contained in the audit report.

**Legislative Audit Report 96-36**, issued in September 1996, covered the three fiscal years ending June 30, 1995 for the Department of Public Service. The audit scope included telephone and utility assessments, inspection fees, employee payroll and other administrative expenditures, and federal grants. The department resolved a finding by billing utilities and telephone companies in a more timely manner. The report also had one finding concerning the Weights and Measures Division of Public Service. The status of that finding is addressed in the Department of Public Service's audit report.

**State of Minnesota Audit Follow-Up Process**

The Department of Finance, on behalf of the Governor, maintains a quarterly process for following up on issues cited in financial audit reports issued by the Legislative Auditor. The process consists of an exchange of written correspondence that documents the status of audit findings. The follow-up process continues until Finance is satisfied that the issues have been resolved. It covers entities headed by gubernatorial appointees, including most state agencies, boards, commissions, and Minnesota state colleges and universities. It is not applied to audits of the University of Minnesota, any quasi-state organizations, such as Metropolitan agencies or the State Agricultural Society, the state constitutional officers, or the judicial branch.

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# MINNESOTA DEPARTMENT OF COMMERCE

August 17, 2000

Mr. James R. Nobles  
Legislative Auditor  
Office of the Legislative Auditor  
Centennial Building  
658 Cedar Street  
St. Paul, Minnesota 55155

Dear Mr. Nobles:

Thank you for the opportunity to respond to the financial and compliance audits of the Department of Commerce and the Department of Public Service for the period from July 1, 1996 through December 31, 1999. We are very pleased with the outcome of this audit and feel the recommendations are very helpful in the evaluation of our business practices. The details as to implementation of the recommendations of this report are addressed here in the order presented in the audit report.

## FINDING 1

- 1. The department did not report some financial activity related to its unclaimed property program on the state's financial statements.**

### *Recommendation*

*The Department of Commerce should work with the Department of Finance to ensure unclaimed property activity is properly recorded in the state's annual financial statements in accordance with generally accepted accounting principles.*

### **Response**

The Department agrees with the recommendation and will report the liabilities owed to other states; the value of unclaimed stocks; and the reduction of escheat revenue and the offsetting current liability for probable escheat property that will ultimately be paid to claimants so that they are included in the state's financial statements.

## FINDING 2

- 2. PRIOR FINDING NOT RESOLVED: The department did not ensure the accuracy of the financial information contained in its unclaimed property database.**

### *Recommendation*

*The department should reconcile the financial activity on the unclaimed property database to the information in the state's accounting system and the bank statements.*

### ***Response***

The Department agrees with the recommendation. The Department is in the process of establishing a new database which will eliminate duplicate entry and will integrate cash receipts and disbursements recorded in the database with cash transactions entered into the state's accounting system. This is part of a larger \$1,400,000 redesign of the Department's databases. This part of the system is projected to be implemented by October 31, 2000.

### **FINDING 3**

#### **3. PRIOR FINDING NOT RESOLVED: The department did not adequately safeguard the contents of unclaimed safe deposit boxes.**

#### *Recommendations*

- *The department needs to inventory the unclaimed property as received and institute procedures to periodically confirm the physical existence of unclaimed property.*
- *The department should restrict access to the vaults and safe by requiring that two separate employees maintain the keys to the vaults and by periodically changing the combination to the safe.*

### ***Response***

The backlog in inventorying the contents of safe deposit boxes remitted to the Department of Commerce has been eliminated. The inventory information has been entered into a database. The database can produce spread sheets which can be used to periodically confirm the physical existence of unclaimed property.

All safe deposit boxes remitted to the state as unclaimed property are required to be submitted to the state on or before November 1 each year. As a practical matter, most banks remit the contents of the safe deposit boxes during the month of October with their annual report of unclaimed property due by November 1 each year. New procedures have been developed to reconcile the number of boxes received to the report submitted by the bank. This reconciliation will be performed upon receipt of the contents of the safe deposit boxes. A physical inventory of the contents of these safe deposit boxes will be performed within 12 months of receipt before the next reporting period starts. This will eliminate the development of future inventory backlogs.

The department has implemented the recommendation to separate the two vault keys, giving one key each to two separate employees.

The department has changed the combination to the safe in compliance with the auditor's recommendation.

#### FINDING 4

- 4. The department did not deposit certain unclaimed property receipts into the state treasury in a timely manner.**

*Recommendation*

*The department should transfer investment receipts to the state treasury daily or obtain a waiver from the Department of Finance to deposit these receipts less frequently.*

***Response***

The receipts currently earn interest in the bank and there is no major loss of revenue from periodic rather than daily deposits of receipts from dividends and the sale of securities by banks on behalf of the state. As we discussed at the audit exit interview, the Department of Commerce will seek a waiver from the Department of Finance to deposit these receipts on a monthly basis to comply with your recommendation.

#### FINDING 5

- 5. The department did not pay reciprocity to other states according to its memorandums of understanding.**

*Recommendation*

*The department should make unclaimed property payments to other states according to its memorandums of understanding.*

***Response***

The Department agrees and will comply with this finding and recommendation.

#### FINDING 6

- 6. The Department of Commerce did not have an adequate audit trail between its receipt and licensing systems.**

*Recommendations*

- *The Department of Commerce should consider integrating its receipt and licensing systems to avoid duplicate data entry into the two systems.*
- *The department needs to maintain an adequate audit trail between the licenses issued on the licensing system and the fee receipts recorded on the receipt system.*

***Response***

The Department is redesigning its databases to integrate its receipts and licensing system to avoid duplicate data entry and to create an adequate audit trail between the licenses issued on the licensing system and the fee receipts recorded on the receipts system. This portion of the system is expected to be operational on or before December 31, 2001.

**FINDING 7**

**7. The department could improve controls to safeguard its receipts in transit to the bank.**

*Recommendation*

*The department should hire an armored courier service to transport receipts to the bank.*

***Response***

The Department will investigate the cost of hiring an armored courier service to transport daily receipts to the bank. The department will then evaluate the risk of using an employee to transport the daily receipts to the bank against the cost of hiring an armored courier service.

**FINDING 8**

**8. The Insurance Division did not follow proper contract procedures for its use of special examiners.**

*Recommendation*

- *The department should issue a request for proposal when contracting for services over \$25,000.*
- *The department should prepare and execute proper state contracts that included the Attorney General and the Commissioner of Administration's signatures.*

***Response***

There are very few accounting firms that are qualified to conduct Insurance Division field audits. These audits must be conducted in accordance with NAIC audit standards under the direction of NAIC certified auditors. As you stated, the Department identified potential contractors through various sources and sent letters to vendors inviting them to bid on the contract. It also would be impractical to issue an RFP for each individual audit.

The Department agrees that it did not follow state contract procedures in establishing this contract.

In order to resolve this conflict, the Department will pursue authority to establish a Master Contract with a single vendor for a specified period of time to conduct these audits. We will seek to determine if that is possible under current statutes or, in the alternative, seek legislation to resolve this problem.

#### **FINDING 9**

**9. The Financial Examinations Division did not charge interest penalties to institutions for late payments.**

*Recommendation*

*The department should assess a late fee to all institutions that did not pay their invoices on time.*

***Response***

In most instances the interest penalty charges would involve attempting to bill and recover very nominal amounts of money (less than \$100). Often the cost of maintaining the receivable and collecting the penalty may cost more than the penalty itself.

The department will comply with the recommendation and start charging the late fees. The department may seek legislation to eliminate the late fees or to establish a threshold amount below which late fees will not be charged.

#### **FINDING 10**

**10. The Insurance Division did not record all of its insurance field audit costs in its Examination Revolving Fund.**

*Recommendation*

*The department should record the special examiner payments and the applicable receipts in its Examination Revolving Fund and work with the Department of Finance to receive cash advances to cover payments from the fund, if necessary.*

***Response***

Assuming the RFP contract problem involving Finding 8 can be resolved, the Department will request approval from the Department of Finance to receive a cash advance to resolve the problem of paying invoices on time.

## FINDING 11

### **11. The Insurance Division did not periodically review its insurance desk audit hourly rate.**

#### *Recommendation*

*The department should periodically review its desk audit hourly rate to ensure that it accurately reflects the audit costs.*

#### *Response*

As discussed in the audit exit conference, the Department of Commerce will comply with this recommendation by reviewing the insurance desk audit hourly rate each time the Department's biennial earning report is prepared.

## FINDING 12

### **12. The Energy and Telecommunications Divisions did not accurately assess certain costs to gas, electric and telephone companies.**

#### *Recommendations*

- *When the department uses preliminary information to compute assessments, it should recalculate the maximum assessments when current information becomes available and ensure that it bills companies appropriately based on the revised calculation.*
- *The department should adjust its direct assessment billings for companies whose direct costs were either increased or decreased based on the erroneous calculation of the maximum assessment limitation for significant differences.*
- *The department should adjust fiscal year 1999 indirect cost assessments and fiscal year 1998 indirect alternative energy cost assessments to correct the allocation errors.*

#### *Response*

First, the Department will eliminate the errors that resulted from using preliminary information to compute assessments. The Department will change from a quarterly to a semi-annual assessment schedule, which will eliminate the need to use preliminary data to compute assessments.

Second, the Department will adjust the \$25,394 misallocated assessments when the next assessment is processed.

Third, the Department will adjust fiscal year 1999 indirect cost assessments and fiscal year 1998 indirect cost assessments to correct the \$12,298 allocation errors.

To place this finding in proper perspective, the errors amount to less than \$50,000 in the overall assessment of more than \$16,500,000 over the three-year audit period.

### FINDING 13

**13. The Department of Commerce has not analyzed the financial position of its recovery funds.**

*Recommendation*

*The department should periodically review the financial position of the recovery funds and adjust fees or approve additional projects as appropriate.*

***Response***

The fees for these funds are set by law and the Department is collecting the fees and complying with the law.

The Department will give the financial positions of the recovery funds a careful review when the earnings report is prepared for the next biennial budget submission. If warranted by the review, the Department will make a fee change recommendation to the legislature.

### FINDING 14

**14. The Department of Commerce did not adequately safeguard its fixed assets.**

*Recommendation*

*The department should maintain a current record of its fixed assets and conduct periodic physical inventories to ensure that the fixed assets list is accurate.*

***Response***

The Department concurs with the recommendation and will do a complete audit of the physical asset inventory on or before December 1, 2000.

Thank you for the recommendations to improve our fiscal process.

Sincerely,

*/s/ James C. Bernstein*

JAMES C. BERNSTEIN  
Commissioner

JCB/WJ/jl

**Department of Commerce**

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**OFFICE OF THE LEGISLATIVE AUDITOR**  
State of Minnesota • James Nobles, Legislative Auditor

Representative Dan McElroy, Chair  
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. James Bernstein, Commissioner  
Department of Public Service

We have audited the Department of Public Service for the period July 1, 1996, through December 31, 1999. Due to the recent merger of the Departments of Commerce and Public Service on September 15, 1999, this report covers the Division of Weights and Measures, the only remaining division within the Department of Public Service. Our audit scope for the Department of Public Service included inspection fee revenue and administrative expenditures. Other financial activity for former components of the Department of Public Service was reviewed as a part of our audit of the Department of Commerce.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, as issued by the Comptroller General of the United States. Those standards require that we obtain an understanding of management controls relevant to the audit. The standards also require that we design the audit to provide reasonable assurance that the Department of Public Service complied with the provisions of laws and regulations significant to the audit. The management of the Department of Public Service is responsible for establishing and maintaining the internal control structure and for compliance with applicable laws and regulations.

This report is intended for the information of the Legislative Audit Commission and the management of the Department of Public Service. This restriction is not intended to limit the distribution of this report, which was released as a public document on August 24, 2000.

*/s/ James R. Nobles*

James R. Nobles  
Legislative Auditor

*/s/ Claudia J. Gudvangen*

Claudia J. Gudvangen, CPA  
Deputy Legislative Auditor

End of Fieldwork: June 2, 2000

Report Signed On: August 21, 2000

**Department of Public Service**

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# Department of Public Service

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### **Audit Participation**

The following members of the Office of the Legislative Audit prepared the report:

Claudia Gudvangen, CPA	Deputy Legislative Auditor
James Riebe, CPA	Audit Manager
David Polisen, CPA, CISA	Auditor-In-Charge
Valerie Wozniak	Student Worker

### **Exit Conference**

We discussed the audit report with the following representatives of the Department of Public Service at the exit conference held on August 3, 2000:

James Bernstein	Commissioner
Mike Blacik	Weights and Measures Director
Miriam Stohl	Accounting Director
William Janisch	Personnel Director
Lee Spelbrink	Department CPA

**Department of Public Service**

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## Report Summary

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### **Audit Conclusions:**

- The department's internal controls provided reasonable assurance that revenue collections were safeguarded, accurately reported in the accounting records, and in compliance with applicable legal provisions and management's authorization. For the items tested, the department complied with the significant finance-related legal provisions concerning inspection fees. The department recovered the costs of the Weights and Measures Division.
- The department's internal controls provided reasonable assurance that administrative expenditures were accurately reported in the accounting records and in compliance with applicable legal provisions and management's authorization. For the administrative expenditures tested, the department complied with applicable legal provisions.

### **Background Information:**

Effective September 15, 1999, the Governor, by executive order, merged the Departments of Public Service and Commerce. As a result of the merger, the Weights and Measures Division is the only remaining division of the Department of Public Service.

The Weights and Measures Division is responsible for checking the accuracy of all weights, weighing devices, and measures in Minnesota. With full enforcement authority, 28 trained field staff inspect pumps and scales across the state. The division also offers precision measurement services, inspects packaged commodities, and monitors the quality and correct labeling of petroleum products.

## Department of Public Service

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# Department of Public Service

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## Chapter 1. Introduction

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Prior to the merger of the Departments of Commerce and Public Service the Department of Public Service was chiefly responsible for enforcing state laws and policies governing public utilities, the conservation of energy, and the standardization of weights and measures. The department derived its authority primarily from Minn. Stat. Chapters 216B and 216C.

Commissioners of the Department of Public Service during our audit scope included Kris Sanda (January 1991 through December 1998), Ruth Grendahl (January 1999 to March 1999), and Steve Minn (March 1999 to February 2000). James Bernstein served as acting commissioner of the department since February 2000 and was appointed commissioner in August 2000.

Effective September 15, 1999, the Governor, by executive order, merged the Departments of Public Service and Commerce. As a result of the merger, the Weights and Measures Division is the only remaining division of the Department of Public Service.

The Weights and Measures Division is responsible for checking the accuracy of all weights, weighing devices, and measures in Minnesota. With full enforcement authority, 28 trained field staff inspect pumps and scales across the state. The division also offers precision measurement services, inspects packaged commodities, and monitors the quality and correct labeling of petroleum products. Minn. Stat. Section 239.011, subd. 1, outlines the division's responsibilities and powers as follows:

- to ensure that weights and measures in commercial service within the state are suitable for their intended use, properly installed, accurate, and properly maintained by their owners and users;
- to prevent unfair or deceptive dealing by weight or measure in a commodity or service advertised, packaged, sold, or purchased within the state; and
- to adopt weights and measures requirements that will protect consumers, promote equity between buyers and sellers, and encourage desirable economic growth.

The department is required by statute to recover the costs of its yearly inspections by charging fees to the owners of inspected equipment.

**Department of Public Service**

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## Chapter 2. Inspection Fee Revenue

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### *Chapter Conclusions*

*The department's internal controls provided reasonable assurance that revenue collections were safeguarded, accurately reported in the accounting records, and in compliance with applicable legal provisions and management's authorization. For the items tested, the department complied with the significant finance-related legal provisions concerning inspection fees. The department recovered the costs of the weights and measures inspection process.*

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Inspection fees are collected from the owner for inspecting and testing weights and measures, providing metrology services and consultation, and providing petroleum quality assurance tests at the request of the licensed distributor. The department must recover the amount appropriated to the weights and measures program through weights and measures fees and petroleum inspection fees. During fiscal years 1997, 1998, and 1999, the department collected approximately \$1.4 million each year in inspection fee revenue.

### **Audit Objectives and Methodology**

We focused on the following objectives for inspection fees:

- Were the fees collected by the department assessed in accordance with statutory requirements?
- Were the fees collected by the department adequately safeguarded and properly recorded on the statewide accounting system?

As part of our audit, we interviewed agency staff to gain an understanding of the controls in place over the collection of inspection fees. We selected a sample of inspection fees to verify that the proper fee was collected and deposited in the state treasury.

We concluded that the department adequately safeguarded and properly recorded inspection fees in the statewide accounting system. The department recovered all of the costs it incurred for inspections conducted by the Weights and Measures Division, as required by statute.

**Department of Public Service**

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## Chapter 3. Administrative Expenditures

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### *Chapter Conclusions*

*The department's internal controls provided reasonable assurance that administrative expenditures were accurately reported in the accounting records and in compliance with applicable legal provisions and management's authorization. For the administrative expenditures tested, the department complied with applicable legal provisions.*

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Administrative expenditures included payments for payroll, rent, travel, supplies, equipment, and other administrative expenditures. Table 3-1 shows the administrative expenditures summarized by type of expenditure and fiscal year for the audit period. The table includes the expenditures for both weights and measures inspections and petroleum inspections. The Department of Revenue collects the costs associated with petroleum inspections.

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**Table 3-1**  
**Expenditures by Type and Fiscal Year**

<u>Expenditures</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>
Payroll	\$2,036,049	\$2,198,707	\$2,270,826
Equipment	424,504	234,225	250,039
Supplies	176,854	123,912	207,452
Rent	123,478	186,634	127,587
Travel	93,635	107,948	92,509
Other Operating Costs	25,762	13,976	59,152
Communications	17,792	25,486	28,278
Contractual Services	6,652	14,355	7,584
Other Expenditures	112,611	135,291	74,919
Total	<u>\$3,017,337</u>	<u>\$3,040,534</u>	<u>\$3,118,346</u>

Source: Minnesota Accounting and Procurement accounting system.

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### **Audit Objectives and Methodology**

We focused on the following objectives for payroll and other administrative expenditures:

- Did the Department of Public Service's internal controls provide reasonable assurance that payroll and other administrative expenditures were accurately reported in the accounting records and in compliance with applicable legal provisions and management's authorization?

## Department of Public Service

- For the items tested, did the Department of Public Service comply, in all material respects, with significant finance-related legal provisions concerning payroll and other administrative expenditures?

Our audit approach included interviewing agency staff to gain an understanding of the controls in place over payroll and other administrative expenditures. We analyzed and tested payroll expenditures by reviewing time sheets, leave slips and leave records, and tested compliance with applicable bargaining unit agreement provisions. We also reviewed a sample of other administrative expenditures to determine if the department properly authorized, processed, and recorded the expenditures.

Based on our review of payroll and other administrative expenditures, we concluded that department employees were paid in accordance to the applicable bargaining unit agreements, and the payroll transactions were properly recorded in the state's accounting system. Administrative expenditures were authorized, made for a proper purpose, and complied with applicable finance-related legal provisions, for the items tested.

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**Status of Prior Audit Issues**  
**As of June 2, 2000**

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**Legislative Audit Report 96-36**, issued in September 1996, covered the three fiscal years ending June 30, 1995. The audit scope included telephone and utility assessments, inspection fees, employee payroll, and other administrative expenditures. The report had one finding concerning the Department of Public Service. The finding related to the Weights and Measures Division not fully recovering their costs. The Department of Public Service adequately resolved this issue.

**State of Minnesota Audit Follow-Up Process**

The Department of Finance, on behalf of the Governor, maintains a quarterly process for following up on issues cited in financial audit reports issued by the Legislative Auditor. The process consists of an exchange of written correspondence that documents the status of audit findings. The follow-up process continues until Finance is satisfied that the issues have been resolved. It covers entities headed by gubernatorial appointees, including most state agencies, boards, commissions, and Minnesota state colleges and universities. It is not applied to audits of the University of Minnesota, any quasi-state organizations, such as Metropolitan agencies or the State Agricultural Society, the state constitutional officers, or the judicial branch.