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

Financial Audit

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**Office of the State Treasurer**  
**January 1, 1999, to December 31, 2000**



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**MARCH 8, 2001**

**01-12**

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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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All OLA reports are available at our Web Site: <http://www.auditor.leg.state.mn.us>

If you have comments about our work, or you want to suggest an audit, investigation, evaluation, or best practices review, please contact us at 651-296-4708 or by e-mail at [auditor@state.mn.us](mailto:auditor@state.mn.us)



**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

The Honorable Carol Johnson  
State Treasurer

We have audited the Office of the State Treasurer for the fiscal year ended June 30, 2000, as further explained in the Introduction. The work conducted in the Office of the State Treasurer is part of our Statewide Audit of the State of Minnesota's fiscal year 2000 financial statements. We issued an unqualified opinion on the State of Minnesota's general purpose financial statements included in its Comprehensive Annual Financial Report for the year ended June 30, 2000. In addition to the statewide audit scope, we reviewed other financial activities administered by the Office of the State Treasurer for the period January 1, 1999, to December 31, 2000. Our audit scope included revenue, bank fees, payroll, and travel. The following Report Summary highlights the audit objectives and conclusions. We discuss these issues 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 require that we design the audit to provide reasonable assurance that the Office of the State Treasurer complied with provisions of laws, regulations, contracts, and grants that are significant to the audit. Management of the Office of the State Treasurer is responsible for establishing and maintaining the internal control structure and complying with applicable laws, regulations, contracts, and grants.

This report is intended for the information of the Legislative Audit Commission and the management of the Office of the State Treasurer. This restriction is not intended to limit the distribution of this report, which was released as a public document on March 8, 2001.

*/s/ James R. Nobles*

James R. Nobles  
Legislative Auditor

*/s/ Claudia J. Gudvangen*

Claudia J. Gudvangen, CPA  
Deputy Legislative Auditor

End of Fieldwork: January 26, 2001

Report Signed On: March 5, 2001

# Office of the State Treasurer

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### Audit Participation

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

Claudia Gudvangen, CPA	Deputy Legislative Auditor
Cecile Ferkul, CPA, CISA	Audit Manager
Tony Toscano	Auditor-in-Charge
Susan Kachelmeyer, CPA, CISA	Auditor
George Deden, CPA	Auditor
Charlie Gill	Auditor
Theresa Hahn	Auditor
David Massaglia	Auditor
Sheila Tye	Intern

### Exit Conference

We discussed the results of the audit with the following staff of the Office of the State Treasurer at an exit conference on February 26, 2001:

Carol Johnson	State Treasurer
John Manahan	Deputy State Treasurer
Jerry Engebretson	Director of Treasury Operations

# Office of the State Treasurer

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## Report Summary

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### Key Findings and Recommendations:

The Office of the State Treasurer did not promptly detect that its allocation of certain court surcharge receipts did not comply with statutory provisions. As a result, the office recorded surcharge receipts in error from January 1999 through December 1999, and the Peace Officers Standards and Training Board did not receive its proper share of receipts until the problem was corrected in February 2000. We recommended that the Office of the State Treasurer periodically review its allocation of county level receipts to ensure compliance with statutes.

### Agency Background:

The State Treasurer is a constitutional officer elected by the citizens of the state to a four-year term. Carol Johnson has served as State Treasurer since January 1999. During the November 1998 election, the voters of the state of Minnesota approved a constitutional amendment abolishing the Office of the State Treasurer effective at the conclusion of Carol Johnson's current four-year term, which is January 2003. The Office of the State Treasurer provides banking services for most state agencies. This function includes cash control, receipt processing, and warrant redemption. In addition, the office makes debt service payments on outstanding general obligation bonds and collects various fees and assessments transmitted from the 87 counties. The State Treasurer also serves as a member of the State Board of Investment, the Minnesota State Retirement System Board, and the Executive Council.

### Agency Response:

The Office of the State Treasurer agreed with the report's finding and is taking corrective action to resolve the issue.

**Office of the State Treasurer**

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## Chapter 1. Introduction

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Our work in the Office of the State Treasurer is part of our annual Statewide Audit. The primary objective of the Statewide Audit was to render an opinion on the State of Minnesota's financial statements. Our December 1, 2000, report included an unqualified opinion on the State of Minnesota's general purpose financial statements included in its Comprehensive Annual Financial Report for the year ended June 30, 2000. In accordance with *Government Auditing Standards*, we also issued our report, dated December 1, 2000, on our consideration of the State of Minnesota's internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts, and grants.

Our audit scope in the Office of the State Treasurer focused on state depository cash control, including receipt collections and warrant redemptions, and debt service expenditures. These areas were material to the state's financial statements in the fiscal year ended June 30, 2000. In addition to the statewide audit scope, we reviewed other financial activities administered by the Office of the State Treasurer for the period January 1, 1999, to December 31, 2000. Our audit scope included revenue, bank fees, payroll, and travel.

To address our financial statement and agency objectives, we interviewed key agency employees, reviewed applicable policies and procedures, tested representative samples of financial transactions, and performed analytical procedures, as appropriate. We discuss our specific audit work more fully in the following chapters.

**Office of the State Treasurer**

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## Chapter 2. Cash Control

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### *Chapter Conclusions*

*The Office of the State Treasurer adequately safeguarded cash, authorized transactions and properly reported transactions in the accounting records. The underlying transactions and bank account activity supported the cash balance recorded by the State Treasurer. In addition, for the items tested, the Office of the State Treasurer complied with applicable legal provisions.*

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The Office of the State Treasurer provides banking services for most state agencies. The office interacts with the Department of Finance, which provides accounting and other services, and the State Board of Investment, which invests state monies. The office accounts for money from the time state agencies deposit it in the state treasury until it is lawfully disbursed or invested. Receipt transactions, including investment redemptions and maturities, totaled \$330.7 billion in fiscal year 2000.

Another function of the office is to verify and redeem state warrants used by state agencies to satisfy lawful obligations of the state. The Treasurer's Office determines that the items submitted by the banks are valid outstanding warrants before transferring funds to the banks for payment. The Treasurer's Office also maintains records detailing the daily balance of outstanding warrants. During fiscal year 2000, the Treasurer's Office processed warrants totaling approximately \$13.4 billion. In addition, the office initiated \$8.2 billion electronic fund transfers based on Department of Finance and other state agency authorizations.

The Office of the State Treasurer monitors collateral pledged to secure funds deposited in the various state depository accounts. Pursuant to statutory requirements, state deposits cannot exceed 90 percent of the market value of the collateral pledged by the bank. The State Treasurer's system monitors the collateral balance and identifies when insufficient coverage exists. At June 30, 2000, banks pledged \$65 million in collateral to secure depository accounts.

### **Audit Objectives and Methodology**

The primary objectives of our audit were to answer the following questions:

- Did the Office of the State Treasurer adequately safeguard cash and properly authorize and record transactions in the accounting records?
- Did the bank account activity support the cash balance reported on the Office of the State Treasurer's accounting records?

## **Office of the State Treasurer**

- Did the Office of the State Treasurer comply with material legal provisions in administering state depository accounts?

To address our financial statement objectives, we interviewed key department employees to gain an understanding of applicable policies and procedures. We confirmed bank balances at June 30, 2000, and tested the State Treasurer's bank account reconciliations. In conjunction with our audit of the Department of Finance, we reviewed and tested supporting documentation for reconciliations of cash receipt and disbursement transactions recorded on the Minnesota Accounting and Procurement System (MAPS) and the State Treasurer's depository accounting system. We reviewed the controls over warrant and automatic clearing house transactions and verified the reconciliation of outstanding warrants as recorded on MAPS to the State Treasurer's outstanding warrant balance at June 30, 2000. We also tested compliance with Minn. Stat. Section 9.031, pertaining to the adequacy of collateral coverage.

### **Conclusions**

The Office of the State Treasurer adequately safeguarded cash, authorized transactions, and properly reported transactions in the accounting records. The underlying transactions and bank account activity supported the cash balance recorded by the State Treasurer. In addition, for the items tested, the Office of the State Treasurer complied with applicable legal provisions.

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## Chapter 3. Debt Service Expenditures

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### *Chapter Conclusions*

*During fiscal year 2000, the Office of the State Treasurer appropriately paid over \$300 million in general obligation bond principal and interest payments and properly recorded the transactions in the accounting records. For the items tested, the office complied with applicable legal provisions for debt service payments.*

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As provided in the State Constitution, the State Treasurer maintains records and makes payments for principal and interest on the state's general obligation bonds. At June 30, 2000, the outstanding general obligation bonds payable totaled \$3.5 billion. During fiscal year 2000, the Office of the State Treasurer made debt service payments totaling approximately \$334 million.

### **Audit Objectives and Methodology**

The primary objective of our audit was to answer the following question:

- Did the Office of the State Treasurer make debt service expenditures in accordance with amortization schedules and other material legal provisions?
- Did the Office of the State Treasurer properly record debt service expenditures in the accounting records?

To address our financial statement objectives, we interviewed key department employees to gain an understanding of applicable policies and procedures and performed analytical procedures, as appropriate. In addition, we verified the debt service payments to the amortization schedules prepared by the Department of Finance.

### **Conclusions**

During fiscal year 2000, the Office of the State Treasurer appropriately paid over \$334 million in general obligation bond principal and interest payments and properly recorded the transactions in the accounting records. For the items tested, the office complied with applicable legal provisions for debt service payments.

**Office of the State Treasurer**

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## Chapter 4. Revenue

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### *Chapter Conclusions*

*Generally, the Office of the State Treasurer properly collected and reported revenue in the accounting records. For the revenue collections that we tested, the Office of the State Treasurer complied with applicable legal provisions. However, we noted that the Office of the State Treasurer did not promptly detect errors in its allocation of some receipts.*

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The Office of the State Treasurer collects various fees, fines, and assessments. Substantially all of the receipts are transmitted by county governments that collect the amounts in accordance with various statutory provisions. The Office of the State Treasurer deposits the majority of the receipts in the General Fund as non-dedicated revenue. Table 4-1 shows the receipts collected by the Office of the State Treasurer during the period January 1, 1999, to December 31, 2000.

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**Table 4-1**  
**Summary of Receipts**  
**January 1, 1999, to December 31, 2000**

	<u>Amount</u>	<u>Percent</u>
Criminal and Traffic Offense Surcharge	\$30,520,866	26.4%
Civil and Probate Filing Fees	27,376,985	23.7
County Recording Surcharge	11,374,559	9.9
State Share Fines	10,799,497	9.4
Miscellaneous Court Fines	7,613,149	6.6
Birth/Death Certificate Surcharge	4,028,303	3.5
Marriage License Fees and Surcharges	3,649,360	3.1
Forfeitures	3,173,197	2.7
Seat Belt and Child Restraint Fines	2,695,815	2.3
Conciliation Filing Fees	2,431,825	2.1
Officer Training Surcharge	2,193,215	1.9
Other Surcharges	1,918,561	1.7
Tax Increment Administrative Fees	1,457,922	1.3
Petty Misdemeanor Fines	1,172,883	1.0
Land and Real Estate Surcharges	1,129,513	1.0
Chemical Dependency Fines	1,076,137	0.9
Interest	1,049,887	0.9
Reimbursements and Escheats	981,776	0.9
Other	<u>759,754</u>	<u>0.7</u>
Total	<u>\$115,403,204</u>	<u>100%</u>

Source: Minnesota Accounting and Procurement System (MAPS).

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# Office of the State Treasurer

## Audit Objectives and Methodology

The primary objectives of our audit of revenue were to address the following questions:

- Did the Office of the State Treasurer appropriately collect and properly report revenues in the accounting records?
- Did revenue collections comply with applicable legal provisions?

The methodology we used to audit revenue included interviewing key agency employees to gain an understanding of applicable policies and procedures, testing receipt transactions and supporting documentation, including county remittance reports, and performing analytical procedures, as determined appropriate.

## Conclusions

Generally, the Office of the State Treasurer properly collected and reported revenue in the accounting records. For the revenue collections that we tested, the Office of the State Treasurer complied with applicable legal provisions. However, as noted in Finding 1, the Office of the State Treasurer did not promptly detect errors in its allocation of some receipts.

### **1. The Office of the State Treasurer did not promptly detect errors in its allocation of certain receipts.**

The Office of the State Treasurer did not promptly detect that its allocation of certain court surcharge receipts did not comply with statutory provisions. As a result, the office recorded surcharge receipts in error from January 1999 through December 1999.

In December 1998, the Minnesota Supreme Court notified the Office of the State Treasurer that the Legislature had changed the surcharge structure. Effective January 1, 1999, the Legislature eliminated a surcharge dedicated solely to the Peace Officers Standards and Training (POST) Board and created a broader, general surcharge with a portion dedicated to the POST Board. However, as shown in Table 4-1, from January 1999 through June 1999, the Treasurer's Office did not allocate any part of the surcharge to the POST Board. During this period, the POST Board should have received approximately \$1.6 million of the surcharge. The Treasurer's Office was unaware of this error until the POST Board notified the Department of Finance that it wasn't receiving its dedicated receipts. In June 1999, the Office of the State Treasurer worked with the Department of Finance and the POST Board to correct the errors.

# Office of the State Treasurer

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**Table 4-2**  
**Comparison of Statutory Surcharge allocation to the**  
**Office of the State Treasurer's Allocation**  
**January 1999 through June 1999**

<b>Fund</b>	<b>Statutory Allocation</b>	<b>Treasurer's Office Allocation</b>
General	60%	99%
Game and Fish	1%	1%
Peace Officers Standards and Training Board	39%	0%

Source: Minnesota Statutes and Office of the State Treasurer records.

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The Office of the State Treasurer did not make an allocation to the POST Board in July 1999. In August 1999 the Treasurer's Office made an allocation based on cumulative receipts for July and August 1999. From September 1999 through December 1999, Treasurer's Office continued to allocate receipts to the POST Board based on cumulative receipts back to July 1999, rather than based on the monthly receipts. Consequently, the Treasurer's Office overallocated approximately \$5.26 million to the POST Board during this period. Again, the Office of the State Treasurer did not promptly detect this error in its allocation of surcharges. After working with the Department of Finance, Treasurer's Office corrected this error in February 2000.

The State Treasurer's Office should monitor statutory changes affecting the revenue programs it administers. The Treasurer's Office centralized collection of these county receipts is designed to simplify and control the recording of the deposits on the state's accounting system. By not promptly reviewing the allocation of the surcharges, the Treasurer's Office credited the surcharges to the wrong funds.

### *Recommendation*

- *The Office of the State Treasurer should periodically review its allocation of county level receipts, especially when statutory changes occur.*

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## Chapter 5. Administrative Expenditures

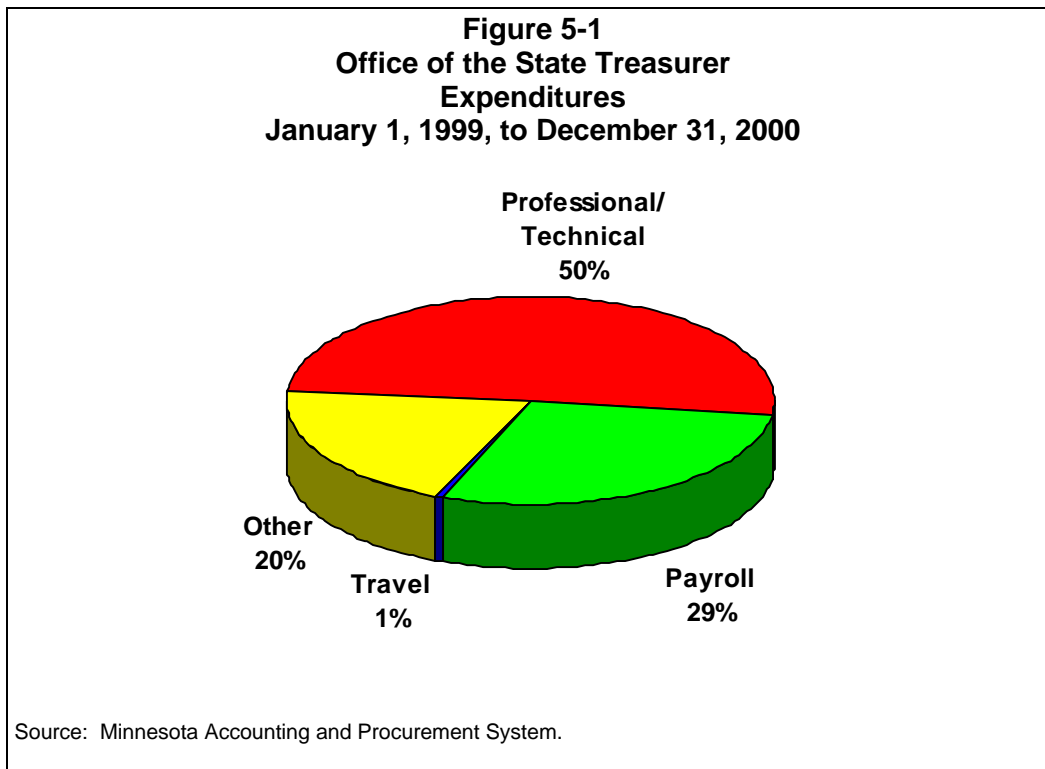
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### *Chapter Conclusions*

*The Office of the State Treasurer ensured that payroll and other administrative expenditures were properly processed and recorded in the accounting records. The Office of the State Treasurer complied with material finance-related legal provisions.*

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The Office of the State Treasurer expended approximately \$5.1 million during the period January 1, 1999, to December 31, 2000. The two major expenditure types were professional/technical services (which included bank fees) and payroll, which totaled \$2,641,145 and \$1,486,179, respectively. Figure 5-1 shows the office's major expenditure categories.



The State Treasurer has statutory authority to pay depositories for performing banking services relating to the deposit of state funds. The office makes payments based on contracts with local depositories. The Office of the State Treasurer had 13 positions during the time period covered by our audit. Payroll is processed through the state payroll system.

# **Office of the State Treasurer**

## **Audit Objectives and Methodology**

We focused our review of administrative expenditures on the following objectives:

- Did the Office of the State Treasurer ensure that professional/technical services, payroll, and travel expenditures were properly authorized, adequately supported, and properly recorded in the accounting records?
- Did the Office of the State Treasurer comply with material finance-related legal provisions and applicable bargaining unit agreements?

The audit methodology used to review these areas included interviewing key agency employees to gain an understanding of the controls over payroll, professional/technical services, and travel expenditures. We reviewed supporting documentation and performed analytical procedures as determined appropriate for a sample of transactions to determine if they were properly authorized, processed, and recorded. We also reviewed expenditures to determine if the Office of the State Treasurer complied with material finance-related legal provisions.

## **Conclusions**

The Office of the State Treasurer ensured that payroll, professional/technical services, and travel expenditures were accurately reported in the accounting records. We also concluded that the Office of the State Treasurer was in compliance with material finance-related legal provisions with respect to the items tested.

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**Status of Prior Audit Issues  
As of January 26, 2001**

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**Most Recent Audit**

**Legislative Audit Report 99-16**, focused on selected state programs as part of the Statewide Audit. The audit covered areas material to the State of Minnesota's financial statements, including state depository cash control and debt service expenditures in fiscal year 1998. In addition to the statewide audit scope, we reviewed other financial activities administered by the Office of the State Treasurer. The report contained one finding related to travel costs. The department implemented the recommendation discussed in the audit.

**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 and quasi-state organizations, such as the metropolitan agencies or the State Agricultural Society, the state constitutional officers, or the judicial branch.

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## CAROL C. JOHNSON

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### Minnesota State Treasurer

February 28, 2001

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

Re: Audit of the Office of the State Treasurer

Dear Mr. Nobles:

Thank you for this opportunity to respond to the Recommendation in your audit report for fiscal year 2000. The response of the Office of the State Treasurer is attached.

We appreciate your assistance and recommendation. Your staff conducted themselves in a very responsive and professional manner during the entire process.

As always, we are available for further discussion to improve the operation of the Office of the State Treasurer.

Sincerely,

*/s/ Carol C. Johnson*

Carol C. Johnson  
Treasurer  
State of Minnesota

Enclosure

cc: Cecile Ferkul, Audit Manager

**RESPONSE**  
**of the**  
**Office of the State Treasurer**  
**to the**  
**Recommendation of the Legislative Auditor**  
**Audit Report for Fiscal Year 2000**

Legislative Auditor's Recommendation

The Office of the State Treasurer should periodically review its allocation of county level receipts, especially when statutory changes occur.

State Treasurer's Response

The Office of the State Treasurer concurs with the recommendation of the Legislative Auditor and will periodically review its allocation of county receipts, especially when statutory changes occur.

Mr. Jerry Engebretson, Fiscal Activities Director for the Office of the State Treasurer, is responsible for implementing this recommendation. The recommendation was implemented on February 26, 2001, the date on which the draft audit report was released to the Office of the State Treasurer.

The State Treasurer wishes to emphasize that the incorrect allocation of certain county receipts did not result in lost principal or earnings to the two affected funds. The corrected allocation was in place prior to the audit.

February 28, 2001