OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

Financial Audit Division Report

Report on Internal Control Over Statewide Financial Reporting

February 11, 2008 **08-02**

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 forty 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.

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.

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

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FINANCIAL AUDIT DIVISION
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Audit Participation

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

Cecile M. Ferkul, CPA, CISA	Deputy Legislative Auditor
James Riebe, CPA	Audit Manager
Laura Peterson, CPA, CISA	Auditor-in-Charge
David Westlund	Lead Worker
Amy Jorgenson	Team Leader
Lat Anantaphong	Auditor
Sara Becker	Auditor
Tracy Gebhard	Auditor
Bridgette Leonard	Auditor
Jamie Majerus	Auditor
Zachary Yzermans	Auditor
Thomas Donahue, CPA	Audit Manager (Retirement Systems)
Michael Hassing, CPA, CISA	Audit Manager (Human Services)
David Poliseno, CPA, CISA, CFE	Audit Manager (Revenue and Education)
Brad White, CPA, CISA, CFE	Audit Manager (Employment and Economic Development)

Exit Conference

We discussed the results of the audit with the following representatives of the Department of Finance an exit conference on February 1, 2008:

Tom Hanson	Commissioner
Stephanie Andrews	Deputy Commissioner
Lori Mo	Assistant Commissioner
Barb Ruckheim	Financial Reporting Director
Jeanine Kuwik	Financial Reporting Supervisor

Report Summary

Conclusion:

The state's financial statements and federal schedule of expenditures were fairly stated in all material respects. However, the state continued to have weaknesses in internal control over financial reporting as noted below.

Key Findings:

The Department of Finance's (Finance) controls, including controls over information provided by other agencies, did not sufficiently mitigate the risk of potential misstatements in the financial statements. Findings 1, 2, and 4, pages 5-9

Finance misclassified some account balances in the draft financial statements. Finance also misclassified some information in a draft footnote disclosure and had not updated another disclosure with current year information. Findings 3 and 5, pages 7 and 9

Several other state agencies need to improve controls over financial reporting, including: Natural Resources, Finding 6, page 10; Human Services, Findings 7 and 8, pages 10-11; Transportation, Finding 9, page 12; and Revenue, Finding 10, page 12.

Finance and other agencies administering federal funds had a material weakness in their controls over the preparation of the federal schedule of expenditures. Finding 11, page 13

The audit report contained ten findings related to controls over the preparation of the state's financial statements and one finding related to the federal schedule of expenditures. Two of the financial statement findings related to prior audit recommendations that Finance partially resolved.

Audit Scope:

We audited the state's financial statements and the federal schedule of expenditures for the year ended June 30, 2007. Our audit encompassed work at many large state agencies that managed financial activities that were significant to each of these financial reports.

Background:

The Department of Finance is responsible for preparing the state's annual financial statements, which are included in the *State of Minnesota's Comprehensive Annual Financial Report*. Finance also prepares the federal schedule of expenditures that is included in the *Minnesota Financial and Compliance Report on Federally Assisted Programs*.

In developing this audit report, we applied criteria included in the American Institute of Certified Public Accountants' Statement on Auditing Standards #112, Communicating Internal Control Matters Identified in an Audit, for assessing the sufficiency of internal controls over financial reporting. The issues contained in this report relate to internal controls in the state's financial reporting process as a whole.

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

Representative Rick Hansen, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. Tom Hanson, Commissioner
Department of Finance

In auditing the State of Minnesota's basic financial statements and the Schedule of Expenditures of Federal Awards for the year ended June 30, 2007, we considered the state's internal controls over financial reporting. We also tested the state's compliance with significant legal provisions impacting the basic financial statements and did not identify any noncompliance to report.[1] This report contains our findings and recommendations on internal control over financial reporting. However, given the limited nature of our audit work, we do not express an overall opinion on the effectiveness of the State of Minnesota's internal controls or compliance. In addition, our work may not have identified all significant control deficiencies or instances of noncompliance with legal requirements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. In developing this report, we applied the criteria included in the American Institute of Certified Public Accountants' Statement of Auditing Standards #112, *Communicating Internal Control Related Matters Identified in an Audit*, for assessing the sufficiency of internal controls over financial reporting. As a result, the issues included in this report relate to internal controls in the state's financial reporting process as a whole and not just to those that exist at the Department of Finance.

We consider the internal control deficiencies described in Findings 1 through 10 related to the preparation of the basic financial statements to be significant control deficiencies, and the deficiency in Finding 11 pertaining to the preparation of the Schedule of Expenditures of Federal Awards to be a material weakness. According to auditing standards, a control deficiency is significant if there is more than a remote likelihood that a consequential misstatement to the financial statements could occur and not be prevented or detected by the state's internal control. A significant control deficiency elevates to a material weakness if there is more than a remote likelihood that a material misstatement would not be detected.

Individual agency responses to our findings and recommendations are presented in the accompanying section of this report titled, *Agencies Responses.* We did not audit the responses and, accordingly, we express no opinion on them.

[1] We separately report the results of our tests of compliance with federal programs.

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Report on Internal Control Over Statewide Financial Reporting

This report is intended solely for the information and use of the State of Minnesota's management, the Legislative Audit Commission, and federal grantor agencies; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit the distribution of this report, which was released as a public document on February 11, 2008.

/s/ James R. Nobles	*/s/ Cecile M. Ferkul*
James R. Nobles Legislative Auditor	Cecile M. Ferkul, CPA, CISA Deputy Legislative Auditor

End of Fieldwork: December 7, 2007

Report Signed On: February 8, 2008

Financial Statement Findings and Recommendations

1. PRIOR FINDING PARTIALLY RESOLVED: The Department of Finance's (Finance) controls over financial reporting did not sufficiently mitigate the risk of potential misstatements in the state's financial statements.

Finance's continued improvement of its financial reporting process over the past year resulted in fewer audit adjustments of lesser magnitude than in recent years. However, the fiscal year 2007 preliminary financial statements submitted for audit still required significant adjustments due to the lack of sufficient mitigating controls to address the following fundamental weaknesses in the state's internal controls over financial reporting:

- the state's primary accounting system cannot generate accurate financial statements without significant manual accounting entries;
- state agencies continue to need guidance and oversight to provide accurate and reliable information for financial reporting in a decentralized environment; and
- staffing and workload in the financial reporting unit (human resources management) may hinder effective oversight.

<u>The State's Primary Accounting System</u>
The state's primary accounting system, basically a cash basis accounting system, cannot produce financial statements that conform to generally accepted accounting principles without significant manual accounting entries. To prepare financial statements in accordance with generally accepted accounting principles, Finance must make many manual adjustments. The fund level financial statements and the government-wide financial statements also require the application of different accounting principles. Since the accounting system was not designed for these types of complex financial reporting, Finance uses another software application (Fundware) to manually adjust the accounting system data and create the financial statements, making the financial reporting process even more complex. This introduces even more complexity into the financial reporting process. The reliance on a significant amount of manual adjustments and the use of additional accounting applications to compile the financial statements increases the risk of errors.

<u>Decentralized Organizational Structure</u>
Finance relies on other state agencies, such as Transportation, Human Services, Revenue, and Education, to provide much of the information needed for the manual adjustments to prepare financial statements. In this decentralized environment, Finance needs to ensure that those agencies can provide accurate information for financial reporting.

<u>Human Resources Management</u>
Another challenge for Finance has been hiring, retaining, and developing staff in its financial reporting unit. In last year's report, we suggested that Finance may not have committed sufficient resources, in terms of the number of employees and appropriate job classifications, to the preparation of accurate financial statements. This year, staff and supervisors in the unit continued to experience significant work load demands, increasing the risk of misstatements.

Recommendation

- *Finance should to continue to strengthen its internal quality control procedures to mitigate the risk of errors in the state's financial statements.*

2. PRIOR FINDING PARTIALLY RESOLVED: Finance's procedures for using information provided by other agencies to prepare the state's financial statements contain certain control deficiencies.

As part of its decentralized financial reporting process, Finance relied on other state agencies, such as the departments of Revenue, Education, and Human Services, to provide information needed to prepare the state's financial statements. This year, Finance personnel continued to work with state agencies to improve the understanding and quality of the information provided. However, the following transactions were incorrectly recorded in the draft financial statements, which resulted in several audit adjustments:

- Finance made several errors in accounting for tax revenues and tax refunds reported by the Department of Revenue resulting in several audit adjustments to the draft financial statements. One audit adjustment corrected an overstatement of sales tax revenue in the Statement of Activities by $38 million.

- Finance understated school aid payables by $7.5 million in the state's General Fund that had been reported by the Department of Education.

- Finance made an unnecessary adjustment of $2.3 million to reclassify the federal portion of child support enforcement cost recoveries collected by the Department of Human Services without knowing that this year Human Services had changed its process to account for these transactions. Although the amount of the adjustment was not significant to the Federal Fund, the risk of errors increases when Finance makes adjustments to agency information without verification.

These errors were included in the draft financial statements because the department's quality review process did not detect the errors and because Finance did not communicate how it presented the information in the financial statements to the agencies that submitted the information.

Recommendation

- *When Finance relies on other agencies for information included in the financial statements, it should ensure its internal quality control procedures identify significant errors or verify with other state agencies how their information was used in preparing the financial statements.*

3. Finance misclassified some functional expenses and revenues and other account balances in the draft financial statements.

One of the audit adjustments to the draft financial statements pertained to a functional expense misclassification of $121 million. Although Finance has discretion to establish the types of functions it uses for financial reporting purposes according to government accounting principles, it should validate that the expenses reported relate to the functional classifications used. Finance classifies expenses into its functions based on the state agency that incurs the expense. Following this practice, Finance has historically classified the Department of Commerce's expenses in the economic and workforce development function. However, the federal low-income home energy assistance programs administered by Commerce provide financial assistance to low-income families. The U.S. Department of Health and Human Services awards these funds, and the eligibility requirements are similar to other financial assistance programs. Therefore, we concluded these are expenses more appropriately classified in the health and human services function. Due to growth in the program, in fiscal year 2007 the energy assistance payments amounted to about 17 percent of the economic and workforce development function and over half of the Department of Commerce's total expenses. We proposed an audit adjustment to correct this misclassification.

Finance's draft financial statements also misclassified a $17.6 million ice arena donated to the state. This donation, reported as a capital contribution, was erroneously reported in the agricultural and environmental resources function when it should have been reported in the general government function. The isolated error occurred because the new account for the entry in Finance's financial reporting software was not set up through the normal process that included independent supervisory review. Our auditors identified the misclassification and proposed an audit adjustment.

Other types of misclassifications pertained to taxes and securities lending activity. We recommended separate adjustments that affected the classification of current and noncurrent taxes receivable on the government-wide Statement of Net Assets. The adjustments increased the noncurrent portion of sales tax receivables by $16.1 million and decreased the noncurrent portion of individual income tax receivables by $7.3 million, for a net adjustment of $8.8 million. These financial statement adjustments also required audit adjustments to the disaggregation of receivables footnote disclosure. In the General Fund, we proposed an adjustment that increased taxes receivable by $18.1 million, offset by a corresponding increase in two liability accounts. The adjustment related to activity in the sales tax clearing account after year end. Another audit adjustment established securities lending collateral assets and liabilities for $2.3 million for the Emergency Medical Services Trust Fund.

Recommendations

- *Finance should consider whether any other material programs or activities administered by state agencies do not fit the definition of that agency's assigned function and make the necessary adjustments within the financial statements.*

- *Finance should ensure that all new accounts established in its financial reporting software obtain supervisory review and authorization.*

- *Finance should make sure the sales tax clearing account activity and securities lending collateral for the Emergency Medical Services Trust Fund are properly presented in the financial statements.*

4. Finance did not obtain necessary information from other agencies to accurately eliminate internal service fund activity from the government-wide financial statements. Also, Finance's review process did not identify these errors or other mistakes in the elimination of indirect costs from the financial statements.

Finance made several errors and omissions when it eliminated the internal service funds' activity and statewide indirect costs. According to generally accepted accounting principles,[2] eliminations should be made in the government-wide financial statements to remove the "doubling-up" effect of financial activities within state government.

Finance had the following errors related to its eliminating entries:

- The department did not eliminate $11 million of the $15 million of internal accounts payables and receivables in the draft financial statements, overstating these account balances. Finance did not eliminate these amounts, which were payables and receivables between state agencies, because they did not receive the requested information from other state agencies (the Department of Employee Relations and Office of Enterprise Technology). Finance personnel did not follow up with the agencies to obtain the necessary information. An audit adjustment corrected the error.

- Finance used inaccurate and outdated percentages of internal and external customers when it calculated the internal service fund elimination amounts. Internal service funds account for business with both state agencies and entities outside of state government. Only the activity related to state agencies needed to be eliminated from the government-wide financial statements. Finance failed to eliminate $4.1 million due to erroneous percentages of internal versus external customers. Some of the errors resulted from incorrect formulas in the spreadsheets Finance used to calculate the elimination amounts. In addition, the Office of Enterprise Technology did not provide Finance with its current ratios of internal and external customers. Finance did not follow up with the Office of Enterprise Technology to obtain the updated percentages, which would have resulted in an additional adjustment of $1.3 million.

- Finance did not eliminate $6 million of rebates the internal service funds paid back to their customers. Therefore, sales and expenses were overstated in the draft financial statements. Due to an error in Finance's procedures in identifying the internal service fund activities, the department missed the $6 million of rebates.

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[2] GASB 34, paragraph 57-60.

- Finance erroneously added $5 million of statewide indirect costs to the general government function rather than subtracting those costs and allocating them to other functions. This resulted in a $10 million audit adjustment. In addition, Finance did not eliminate an additional $5 million of indirect cost payments it received from the departments of Human Services and Transportation, which also overstated general government expenses. The statewide indirect costs are central service type costs that certain state agencies (e.g., the Department of Finance and the Department of Administration) offer other state agencies. The Department of Finance collects payments from the other state agencies for the central service costs.

Recommendations

- *Finance should work with other state agencies that administer internal service funds to obtain the necessary information to accurately eliminate the financial activity between state agencies from the financial statements.*

- *Finance should improve its review process to ensure the accuracy of the internal service fund and indirect cost eliminations from the financial statements.*

5. Finance misclassified some information contained in a draft footnote disclosure and, in another case, did not provide updated financial information for a required disclosure.

Footnote disclosures are an integral part of the financial statements. Finance had the following problems with its draft footnote disclosures:

- The designations of fund balance for the transportation and environmental resources functions were misclassified by $45 million in the draft equity footnote disclosure. Designations of $24 million in the Game and Fish Fund financial statements and $21 million in the Environmental Fund financial statements were incorrectly classified in the footnote as designations for the transportation function.

- Finance did not update the draft pension footnotes to disclose the current year actual employee and employer contributions for the State Employee Retirement Fund and the Teachers Retirement Fund.

Recommendation

- *Finance needs to ensure that the draft footnote disclosures properly classify information contained in the financial statements and contain updated information on required disclosures.*

6. **The Department of Natural Resources (DNR) did not correctly calculate timber sales revenue for the financial statements, and Finance's procedures did not detect the error in one fund.**

DNR incorrectly reported to Finance the amount of timber sales revenue to record in several funds and, although Finance detected most of the errors, it did not detect a $20 million error in one fund which resulted in an overstatement of timber sales revenue. DNR erroneously reported timber sales at the appraisal amount of timber sales permits. It should have reported timber sales at the amount of timber harvested by June 30 that had not been paid for by the end of August.

The DNR issues permits to harvest timber from the state's forests. The permit holder makes a down payment and has five years to harvest the timber. The permits indicate the total appraisal amount of the timber expected to be harvested over the five-year period. Once the lumber company harvests a portion of the timber, DNR bills for the appraised cost of the harvested timber. For transactions accounted for on the Statement of Activities (reported on the full accrual basis of accounting) revenue should be recognized when the exchange of goods happened or in this case when the timber was harvested, regardless of when the receipts were collected.

We identified the overstatement by comparing last year's timber sales to this year's reported amount and found a significant variance. After we asked Finance about the variance, department personnel followed up with DNR and reduced timber sales revenue.

Recommendations

- *DNR should provide training to staff and develop procedures for calculating timber sales revenue amounts to report to Finance.*
- *Finance should compare financial statement account balances to prior year balances for all funds and follow up on significant variances.*

7. **The Department of Human Services did not have a process to accurately report to Finance advance payments to counties or Medicare Part D liabilities.**

The department inaccurately reported or omitted approximately $20 million of its financial activity when it reported its accounts payable information to Finance, as follows:

- The department understated assets and liabilities by $8.2 million. In the information it provided to Finance about its nonhealth care accounts payable, it incorrectly reported advance payments to counties as a reduction to liabilities. The advance payments should have been reported as an asset.
- In the information provided to Finance about its health care accounts payable, the department did not include approximately $11.7 million in payments for Medicare

Part D. The payments were a liability as of the state's year end because they represented a June 2007 obligation.

The department did not have a process in place to detect these errors. We identified the errors and proposed adjustments to accurately reflect assets and liabilities in the state's financial statements.

Recommendation

- *The Department of Human Services should develop a process that accurately reports advance payments to counties and Medicare Part D liabilities.*

8. The Department of Human Services did not have controls in place to prevent or detect payments to incorrect vendors.

The department's lack of adequate internal controls resulted in a $2.6 million payment to the wrong vendor. The error occurred when an employee entered the wrong vendor number into the state's accounting system. Although the department had properly approved the payment, it did not have a process to ensure that the correct vendor was actually paid.

In addition, the department did not have controls in place to detect its error. The department only found out about the error when the recipient contacted the department to question the payment after receiving and cashing the check. Although the department performs periodic payment reconciliations after it processes payments, these comparisons verify the total payment amounts for a given date range and would not detect a payment to an incorrect vendor. The expense was allocated equally between the General Fund and the Federal Fund (Medical Assistance CFDA #93.778). As of December 2007, the department had not recovered the $2.6 million erroneous payment.

Because the department processes billions of dollars of assistance payments to individuals, vendors, and other governmental entities, it is imperative to have a strong system of internal controls that ensures the accuracy of vendor payments.

Recommendations

- *The Department of Human Services should develop internal controls to ensure that payments are made to the correct vendors.*

- *The Department of Human Services should recover the $2.6 million paid to the incorrect vendor.*

9. The Department of Transportation did not analyze the impact of expenditure corrections on the calculation of capital outlay expenditures for financial reporting.

The Department of Transportation made an expenditure correction in the state's accounting system which understated capital outlay expenditures by $2.3 million. The department performs expenditure corrections for a variety of reasons, but usually to account for project funding changes or to ensure correct billings to the federal government. In fiscal year 2007, the department processed about 600 expenditure corrections totaling $378 million that affected the infrastructure capital outlay expenditures recorded in the accounting system. The department did not always take into account how these corrections might overstate or understate capital outlay expenditures for financial reporting. Had the department considered the financial reporting implications of the expenditure corrections, it could have identified these adjustments and correctly reported the capital outlay amounts to the Department of Finance.

Recommendation

- *The Department of Transportation should analyze expenditure data in the accounting system to identify adjustments to capital outlay expenditures and include the adjustments in the amounts reported to the Department of Finance.*

10. The Department of Revenue did not effectively monitor users' access to its business systems.

The Department of Revenue did not establish sufficient internal controls to monitor employee access to its network and business systems to ensure that it removed or modified users' access immediately upon termination of employment or changes in job duties. Monitoring of access to network and business systems is important when financial reporting relies on the accuracy and propriety of electronic data.

As of September 2007, 74 former employees had access to Revenue's network and internal business systems and could process tax transactions. Twenty of those employees had held permanent positions at Revenue; most of these employees left Revenue in 2007, but several employees left in 2005 or 2006. The other 54 former employees had held temporary or seasonal positions. Even though the department subsequently rehired some of these employees, it should have suspended their user access between employment periods.

We also identified seven current employees with access to certain business systems that they did not need to perform their current job duties. These employees changed positions or job duties within the department and no longer needed some of their access.

Revenue relied on its supervisors to notify its Information Access and Security Disclosure Division to remove or modify employee access. However, that notification did not always occur. By not removing or modifying employee access immediately upon termination or changes in job duties, the department increases the risk of unauthorized or inappropriate transactions.

Recommendation

- *Revenue should promptly delete system access for terminated employees and better monitor employee access to its network and business systems to ensure that employees only have the access needed to perform their jobs.*

Schedule of Expenditures of Federal Awards Finding and Recommendations

11. The state's procedures for preparing the Schedule of Expenditures of Federal Awards resulted in significant audit adjustments to the draft schedules and delays in determining the major programs to be audited under the Single Audit Act.

Similar to the state's financial statements, Finance is responsible for preparing the Schedule of Expenditures of Federal Awards that is included in the *Minnesota Financial and Compliance Report on Federally Assisted Programs*. As in the financial reporting process, the accounting system cannot generate the schedule. Finance relies on other state agencies, such as Human Services, Education, Health, and Employment and Economic Development to provide additional accruals or adjustments that are not accurately recorded in the state's accounting system. In the following cases, we identified significant errors in the draft Schedule of Expenditures of Federal Awards submitted for audit. These errors could have been identified by the Department of Finance and applicable agencies by comparing variances in amounts between fiscal years and following up on significant differences.

- The Department of Human Services erroneously adjusted the draft schedule of federal expenditures received from Finance. The department's adjustment understated expenditures in the draft schedule for the Medical Assistance program by $394 million.

- Finance recorded $46 million in administrative expenditures for the Food Stamp cluster in the wrong federal program. The administrative expenditures should be reported in CFDA #10.561 rather than CFDA #10.551 as recorded on the draft federal schedules.

- Finance did not always adjust prior year agency accruals for the major federal programs. In preparing the 2007 schedules, although the Department of Education had backed out $82 million in prior year accrued liabilities, that activity had not been eliminated from the draft schedules submitted for audit. If not adjusted, these amounts would have significantly overstated the Schedule of Expenditures of Federal Awards.

- The Department of Health did not include $21 million of immunizations received from the Centers for Disease Control and Prevention on its draft schedule of federal expenditures for the childhood immunization program. Per the compliance supplement, the value of commodities needs to be reported as federal grant expenditures. A comparison of the draft schedule amount of $4.5 million compared to the fiscal year 2006 reported expenditures of $19.1 million would have detected the error.

- The Department of Employment and Economic Development improperly measured fiscal year 2007 liabilities, totaling $1.3 million for three federal programs.

The following table identifies, by state agency, all of the federal programs impacted by the errors in the draft Schedule of Expenditures of Federal Awards.

Table of Federal Programs Affected by Financial Reporting Errors
Schedule of Expenditures of Federal Awards
Fiscal Year 2007

State Agency	Federal Program Name	CFDA #
Human Services	Food Stamps	10.551
Human Services	Food Stamp Administration	10.561
Human Services	Temporary Assistance for Needy Families	93.558
Human Services	Child Support Enforcement	93.563
Human Services	Adoption Assistance	93.659
Human Services	State Children's Health Insurance Program	93.767
Human Services	Hurricane Katrina	93.776
Human Services	Medical Assistance	93.778
Education	School Breakfast Program	10.553
Education	National School Lunch Program	10.555
Education	Special Milk Program for Children	10.556
Education	Child and Adult Care Food Program	10.558
Education	Summer Food Service Program for Children	10.559
Education	Improving Teacher Quality State Grants	84.367
Education	Special Education State Grants	84.027
Education	Special Education Preschool Grants	84.173
Education	Title 1 Grants to Local Education Agencies	84.010
Health	Special Nutrition/Women/Infants & Children	10.557
Health	Childhood Immunization Program	93.268
Health	Centers for Disease Control and Prevention	93.283
Health	State Health Care Provider Survey	93.777
Employment/Economic Dev.	Workforce Investment Act Adult Program	17.258
Employment/Economic Dev.	Workforce Investment Act Youth Activities	17.259
Employment/Economic Dev.	Workforce Investment Act Dislocated Worker	17.260

Source: Auditor prepared.

Finance committed limited resources to the preparation of the draft Schedule of Expenditures until after the state's financial statements were completed. Because the schedules require significant manual adjustments and the involvement of various agencies, Finance did not provide the draft schedules to us until January 2008. Errors in the schedules further delayed their finalization. The Single Audit Act requires that the state's major programs be determined based on the final schedules. Changes in the determination of major federal programs may result in the need for additional audit work before the state can issue its Financial and Compliance Report on Federally Assisted Programs, possibly risking its ability to issue the report by March 31, as required by the federal government.

Recommendations

- *Finance and applicable state agencies should ensure that prior and current year accruals are properly reflected in the draft federal expenditure schedules and should perform analytical procedures of current year schedules to prior year amounts and follow up on significant differences.*

- *Finance should review significant adjustments and reclassifications to the federal expenditure schedules submitted by the agencies.*

- *Finance should more promptly prepare the Schedule of Expenditures of Federal Awards to allow an earlier determination of major programs.*

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Status of Prior Audit Issues
As of December 7, 2007

March 22, 2007, Legislative Audit Report 07-04 examined the activities and programs managed by several state agencies that are material to financial statements included in the *State of Minnesota's Comprehensive Annual Financial Report* and the Department of Finance's preparation of the financial statements. The report contained nine findings addressed to the Department of Finance and several other state agencies, including Employment and Economic Development, Human Services, Natural Resources, Revenue, and Transportation. We concluded all of the findings except Findings 1 and 2 in this report have been resolved. The repeated findings pertain to weaknesses in the state's process to prepare the financial statements and how Finance used information submitted by other state agencies for inclusion in the state's financial statements.

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 the metropolitan agencies, or the State Agricultural Society, the state constitutional officers, or the judicial branch.

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MINNESOTA DEPARTMENT OF
FINANCE

February 7, 2008

James R. Nobles, Legislative Auditor
Office of the Legislative Auditor
658 Cedar Street
140 Centennial Office Building
St. Paul, MN 55155-4708

Dear Mr. Nobles:

Thank you for the opportunity to discuss your audit findings for the Statewide Report on Internal Controls over Financial Reporting. Since this year's report includes all findings statewide, our response will address only those findings related to the Department of Finance; the remainder of the findings will be addressed by the specific agency involved.

We place a high priority on continuing our long history of issuing high quality, accurate financial statements. Our 22-year history of receiving unqualified audit opinions and the "Certificate of Achievement for Excellence in Financial Reporting" from the Government Finance Officers Association is important to us. We value suggestions which will make our existing process even stronger.

Recommendation

Finding 1. Finance should continue to strengthen its internal quality control procedures to mitigate the risk of errors in the state's financial statements.

Response

As you indicate, the preparation of the state's financial statements is a very complex process. The state's accounting systems operates on a modified cash basis of accounting and requires thousands of entries to prepare financial statements in accordance with Generally Accepted Accounting Principles (GAAP). These are inherent risks over financial reporting that are similar to most states and large local governments.

To mitigate these risks, we prepared extensive analysis, reconciliations, and adjustments. The financial reporting team is highly skilled and dedicated. New financial reporting team members went through internal training on both governmental accounting and our financial statement preparation process. Two financial reporting team members also went through an additional five-

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Day workshop by the Governmental Finance Officers Association on "An Introduction to Governmental Accounting, Auditing, and Financial Reporting" and we plan to send additional staff in May 2008.

In addition, we perform extensive independent reviews of work performed by our financial reporting team. These reviews are designed to identify and correct material misstatements to the financial statements. As the department does not have unlimited resources to review all transactions, judgments are made based on the risk and materiality of the potential misstatement. This is determined by the experience level of the team member and the magnitude of the potential adjustments.

Thank you for recognizing our continued improvement in the financial reporting process. We believe this is an ongoing process and strive to continue to improve our internal controls over financial reporting.

Person Responsible: Barb Ruckheim, Financial Reporting Director

Implementation Date: December 31, 2008

Recommendation

Finding 2. When Finance relies on other agencies for information included in the financial statements, it should ensure its internal quality control procedures identify significant errors or verify with other state agencies how their information was used in preparing the financial statements.

Response

Due to the complexity of the state's operation and programs, it is necessary to rely on agencies' expertise of their programs. We send numerous memos to agencies for specific pieces of information, some of which includes very complex agency calculations resulting in a significant number of adjusting entries impacting multiple accounts in numerous funds. We continue to work closely with agencies through both meetings and formal correspondence to ensure that they understand the required information needed to make the appropriate adjustments. In addition, the Financial Reporting Unit will continue to monitor and interpret new GAAP pronouncements and work with state agencies to obtain additional adjustments necessary to prepare financial statements in accordance with GAAP.

To further strengthen our process, we will review our documentation and ensure a common understanding is reached on how the information will be used in the financial statements for agencies with material adjustments.

Person Responsible: Barb Ruckheim, Financial Reporting Director

Implementation Date: December 31, 2008

Recommendation

Finding 3. Finance should consider whether any other material programs or activities administered by state agencies do not fit the definition of that agency's assigned function and make the necessary adjustments within the financial statements. Finance should ensure that all new accounts established in its financial reporting software obtain supervisory review and authorization. Finance should make sure the sales tax clearing account activity and securities lending collateral for the Emergency Medical Services Trust Fund are properly presented in the financial statements.

Response

As noted in the audit report and based on Generally Accepted Accounting Principles, state and local governments have discretion in establishing functions used for financial reporting purposes. The department's policy has been that functions are established at the agency level. Thus, the functional classification is determined by the majority of the agency's activity. We believe the functional classification of the federal Low-Income Home Energy Assistance Program administered by Commerce could logically be included in either economic and workforce development or health and human services function.

The primary users of the financial statements are management, legislative and oversight bodies, investors and creditors, and citizens. Many users of the financial statements view this program as part of Commerce as the intent was to keep all of the energy programs together in economic and workforce development even though this program also has functional traits of a health and human services program. We will research this area further to help determine appropriate course of action. At a minimum, we will include a description of the state's policy on functional classifications and any exceptions in the notes to the financial statements in order to avoid confusion.

As noted in the report, the functional misclassification of one donation was an isolated instance. Typically donations are not material to the financial statement and new accounts in this area are very unusual. We will ensure any future accounts go through the normal review process.

We have documented the sales tax clearing account activity related to revised agency adjustments and the security lending collateral in our permanent files to ensure that this activity is properly presented in the financial statements.

Person Responsible: Barb Ruckheim, Financial Reporting Director

Implementation Date: December 31, 2008

Recommendation

Finding 4. Finance should work with other state agencies that administer internal service funds to obtain the necessary information to accurately eliminate the financial activity between state agencies from the financial statements. Finance should improve its review process to ensure the accuracy of the internal service fund and indirect cost eliminations from the financial statements.

Response

As you noted, the adjustments in the internal service funds relate only to the elimination of the double counting of the activity on the government-wide financial statements. Thus, adjustments in this area have no impact on the ending net assets. For this reason and because total amounts involved were small, limited review resources were devoted to this area. We will work with agencies to obtain the necessary information on a periodic basis and reassess our review process.

Person Responsible: Barb Ruckheim, Financial Reporting Director

Implementation Date: December 31, 2008

Recommendation

Finding 5. Finance needs to ensure that the draft footnote disclosures properly classify information contained in the financial statements and contain updated information on required disclosures.

Response

We go through a very extensive review process to ensure all footnote disclosures agree with the financial statements. We will ensure that the classification of the activity is appropriately displayed.

The actuarial statements for the year ended June 30, 2007 were not received in time for inclusion in the fiscal year 2007 notes to the financial statements. Generally Accepted Accounting Principles allows state and local governments to update the actuarial information every 24 months. Thus, the actuarial information contained in the note related to the prior year's actuarial valuation. We will ensure the current year actual employee and employer contributions for the State Employee Retirement Fund and the Teachers Retirement Fund is updated annually.

Person Responsible: Barb Ruckheim, Financial Reporting Director

Implementation Date: December 31, 2008

Recommendation

Finding 6. Finance should compare financial statement account balances to prior year balances for all funds and follow up on significant variances.

Response

Analytical review procedures are performed on each fund included in the state's financial statements. Significant variances are investigated. Our analytical review procedures identified the majority of the misstated timber sales. We worked with DNR to correct the fund financial statements. We will continue to perform analytical procedures, investigate significant variances and ensure all applicable funds are adjusted appropriately.

Person Responsible: Barb Ruckheim, Financial Reporting Director

Implementation Date: December 31, 2008

Recommendation

Finding 11. Finance and applicable state agencies should ensure that prior and current year accruals are properly reflected in the draft federal expenditure schedules, and should perform analytical procedures of current year schedules to prior year amounts and follow up on significant variances. Finance should review significant adjustments and reclassifications to the federal expenditure schedules submitted by the agencies. Finance should more promptly prepare the Schedule of Expenditures of Federal Awards to allow an earlier determination of major programs.

Response

As federal programs may change each year, we have historically relied on agencies to provide accurate information as they are in the best position to ensure information is reported correctly. In the past year, significant improvements were made in the process for capturing federal expenditures by providing agencies with a better tool to identify expenditures and accurately report this information to the department. We will continue to work with agencies and refine the process to ensure the federal expenditures are reported accurately. This includes analyzing the review processes both at agencies and within our department.

We will also provide your staff with the preliminary schedule of federal expenditures that is provided to agencies for review. We understand the major programs are determined based on the final schedule of federal expenditures, but this can be used as a preliminary view of changes in federal programs instead of relying on prior year information. We will also review the process of the completion of the federal expenditure report and work with agencies to improve the timing of the final report.

Person Responsible: Barb Ruckheim, Financial Reporting Director

Implementation Date: March 31, 2008

Sincerely,

Tom J. Hanson

Tom J. Hanson
Commissioner

Minnesota Department of Natural Resources
500 Lafayette Road • St. Paul, MN • 55155-4037

February 5, 2008

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

Dear Mr. Nobles:

Thank you for the opportunity to respond to the findings of the audit of the Department of Finance as it relates to accounts receivable information provided by the Department of Natural Resources (DNR).

Audit Finding 6: The Department of Natural Resources (DNR) did not correctly calculate timber sales revenue for the financial statements, and Finance's procedures did not detect the error.

Audit Recommendation:
- ***DNR should provide training to staff and develop procedures for calculating timber sales amounts to report to Finance.***

The DNR concurs with the above recommendation relating to training and procedures for timber sale recognized revenue amounts to be reported on the annual accounts receivable report to the Department of Finance.

It was DNR's understanding that the estimated receivable for timber was to be included in the annual total receivable amount to the Department of Finance. It was a miscommunication between our staff that the permit estimates minus the cash escrow on those estimates should have been recorded as unbilled receivables and not as open receivables.

In designing the DNR's receivable system (WIRES), it was determined that we needed to include: the permit estimate, the escrow (cash paid towards the permit estimates) and the timber invoices for scale receipts received in our receivable system. We created a separate transaction type for each of the above transactions and are able to create reports showing the amounts for each type. On the annual quarterly report, the DNR will report the balance due on timber invoices for scale receipts received by June 30^{th} as the open receivable and the remaining balance on the permit estimates minus the cash escrow received toward those estimates as the unbilled receivable.

Diane Campbell, Financial Operations and Management Reporting Supervisor, will train staff on the proper method to record timber sales revenue by March 31, 2008. Linda Kelly, Accounting Director, will include this in the DNR Accounts Receivable procedures by April 30, 2008. Pat Neuman, Accounting Officer Senior, Office of Management and Budget Services Transaction Unit, will verify the amounts recorded for billed and unbilled receivables on the annual quarterly report for timber.

Again, thank you for the opportunity to respond to the audit findings of the Department of Finance.

Sincerely,

Mark Holsten, Commissioner
Department of Natural Resources

c: Denise Anderson, Chief Financial Officer
Jerry Hampel, Assistant Administrator, Office of Management and Budget Services

Minnesota Department of **Human Services**

February 6, 2008

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

Dear Mr. Nobles:

The enclosed material is the Department of Human Services response to the findings and recommendations included in the draft audit report of the Department of Finance's internal control over financial reporting audit conducted by your office for the year ended June 30, 2007. It is our understanding that our response will be published in the Office of the Legislative Auditor's final audit report.

The Department of Human Services policy is to follow up on all audit findings to evaluate the progress being made to resolve them. Progress is monitored until full resolution has occurred. If you have any further questions, please contact David Ehrhardt, Internal Audit Director, at (651) 431-3619.

Yours sincerely,

/s/ Cal R. Ludeman

Cal R. Ludeman
Commissioner

Enclosure

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Audit Finding #7

The Department of Human Services did not have a process to accurately report to Finance advance payments to counties or Medicare Part D liabilities.

Audit Recommendation #7

- *The Department of Human Services should develop a process that accurately reports advance payments to counties and Medicare Part D liabilities.*

Department Response #7

The department agrees with the recommendations. In the future, advance payments to counties will be reported as an asset; rather than a reduced liability. The Medicare Part D liability is a component of the health care Incurred But Not Reported (IBNR) report. The department's IBNR report process is now documented.

Person Responsible: Martin Cammack

Estimated Completion Date: Completed

Audit Finding #8

The Department of Human Services did not have controls in place to prevent or detect payments to incorrect vendors.

Audit Recommendation #8

- *The Department of Human Services should develop internal controls to ensure that payments are made to the correct vendors.*

- *The Department of Human Services should recover the $2.6 million paid to the incorrect vendor.*

Department Response #8

The department agrees with the recommendations. After the incident, the Department of Finance modified state-wide payment controls to prevent this type of mistake from happening again. After their review, our internal auditors recommended that the department adopt the new procedures. The department has implemented the enhanced payment controls.

We are working with the Office of the Attorney General (civil action) and the Hennepin County Attorneys Office (criminal action). They are coordinating the civil and criminal proceedings.

Person Responsible: Martin Cammack

Estimated Completion Date: Completed

Audit Finding #11

The state's procedures for preparing the federal Schedule of Expenditures resulted in significant audit adjustments to the draft schedules and delays in determining the major programs to be audited under the Single Audit Act.

Audit Recommendation #11

- *Finance and applicable state agencies should ensure that prior and current year accruals are properly reflected in the draft federal expenditure schedules.*
- *Finance should review significant adjustments and reclassifications to the federal expenditure schedules submitted by the agencies.*
- *Finance should more promptly prepare the federal Schedule of Expenditures to allow an earlier determination of major programs.*

Department Response #11

The department will work with the Department of Finance to implement the necessary procedures to properly state prior and current accruals to the federal expenditure schedules.

Person Responsible: Martin Cammack

Estimated Completion Date: December 31, 2008

Minnesota Department of Transportation

395 John Ireland Boulevard
Saint Paul, Minnesota 55155-1899

Office: (651) 366-4800
Fax: (651) 366-4795

January 31, 2008

James R. Nobles, Legislative Auditor
Office of the Legislative Auditor
Room 140, Centennial Building
658 Cedar Street
St. Paul, MN 55155-1603

Dear Mr. Nobles:

Listed below and on the attached document is the agency response to audit finding number 9 pertaining to incorrect recording of capital outlay expenditures. We believe the proposed action provides reasonable assurance that expenditure corrections will be monitored sufficiently to prevent material misstatement of capital outlay expenditures.

Response

- *The Program Accounting Management Unit Supervisor in the Mn/DOT Finance Office will train employees on the purpose of the capital asset codes and their use for the Financial Statements.*

- *Monthly, the Program Accounting Management Unit will analyze expenditures corrections made by the unit to determine if the corrections impacted the capital asset reporting. Corrective action will be taken for transactions that inappropriately affected capital asset reporting.*

Sincerely,

/s/ Carol Molnau

Carol Molnau
Lt. Governor/Commissioner

MINNESOTA · REVENUE

February 5, 2008

James R. Nobles
Legislative Auditor
Office of the Legislative Auditor
658 Cedar Street
140 Centennial Office Building
St. Paul, Minnesota 55155-1603

Dear Mr. Nobles:

Thank you for providing us the results of your audit of the State's financial reporting for the year ended June 30, 2007. Below is our response to your finding and recommendation relating to the Department of Revenue.

Finding:
(10) The Department of Revenue did not effectively monitor users' access to its business systems.

Recommendation:
Revenue should promptly delete system access for terminated employees and better monitor employee access to its network and business systems to ensure that employees only have the access needed to perform their jobs.

Our Response:
We agree that we need to do a better job of ensuring that all terminated employees have their system access rights removed immediately upon termination or reassignment. To protect against instances of failing to do so, the Department has implemented additional measures to secure our systems and information from unauthorized access. One of those measures requires all users to change their passwords every 30 days or they automatically expire. When a password expires, the risk of unauthorized access is dramatically reduced.

Even with an expired password it would be difficult for a terminated employee to get unauthorized access to Department systems. To gain access, terminated employees need to be physically located within the Department, have access to a Department computer connected to its network, and obtain the assistance of an employee with the special rights necessary to reset the expired password.

The audit notes that some former employees continued to have access rights to department systems after their separation. While this is an important finding that we will address, our research indicates that none of those employees have attempted to access our systems after the date of their termination. Many of them were seasonal employees who are normally laid-off after completion of the filing season, and who retain their status as Revenue employees during the layoff period. Sixty-eight percent of these employees were called back to work within six months of being laid-off, and some of them were "permanent-part-time employees".

The Department is aware of the importance of ensuring that access rights of employees are limited to those needed to perform their duties.

Currently, when an employee leaves the Department or transfers from one division to another, our supervisors are required to complete a "separation/transfer checklist" which itemizes the tasks that must be completed by the employee and supervisor prior to termination. The form's fourteen key items include systems access, computer databases, and delegations. It must be signed by both the employee and supervisor and submitted to our Human Resources division as part of the employee's personnel file. A copy of the checklist is attached.

We recognize that procedures and policies are useless if employees ignore them. The instances noted in the audit result from the failure of supervisors to follow existing Department procedures requiring notification to remove or change accesses. To correct this weakness, we are taking the following actions:

- We are re-emphasizing the importance of providing notification of access changes related to terminations and reassignments, and need to assure that every employee has only the authority and access they need to do their jobs.

- We are in the process of implementing a more user-friendly system known as "Service Desk Express" for timely notification of changes in access authorizations.

- We are evaluating mechanisms for ensuring that failure to make proper changes to employee accesses and authorizations are identified and brought to the attention of senior management.

- We are defining standard access and authorization profiles for most of our positions to minimize the risk of granting access that exceeds what is needed.

- We are implementing procedures to ensure that any employee who transfers to another unit or division has their access rights re-evaluated and modified, if necessary.

The Department of Revenue will continue to stress the importance of having proper internal procedures and state-of-the-art technology for ensuring that taxpayer information is protected and employees have only the access and authorities they need to perform their duties.

Thanks again for the very helpful audit.

Sincerely,

Ward Einess

Ward Einess
Commissioner

SEPARATION/TRANSFER CHECKLIST

This checklist itemizes some of the tasks that must be completed when an employee leaves their current position - whether to accept a position in another division/work unit within Revenue, transfer to another State Agency, or leave State service. Upon notice that an employee is leaving, the supervisor must schedule a meeting with the separating employee to:

1. Review and complete this checklist with the employee,
2. to address practical matters about the employee's departure, and
3. to get individual feedback from the employee about his/her experiences in the unit.

This checklist must be completed and signed by the supervisor and the separating employee prior to their last work day. **The completed checklist must then be submitted to Human Resources to be placed in the employee's personnel file.**

Employee Name (Please Print)____

Division/Work Unit ____

Last Work Day ________________ Reason for leaving ____________________________

Indicate the date completed next to each item below. If the item is not applicable, denote as "NA".

________ **WRITTEN NOTICE:** The employee must provide a written statement to their supervisor, with a copy to Human Resources, of his/her intent to leave their position and the last day of work. It should be noted whether the employee is moving to another position within Revenue or to another State Agency, or are leaving State service. *Note: If the employee is leaving State service, vacation leave may not be used to extend the date of separation.* Upon notification that an employee is leaving State service, Human Resources will provide additional information to the employee pertaining to employee benefits including final paychecks and insurance continuation.

________ **TIMESHEET:** The employee must complete their final timesheet (or self time entry) and submit any outstanding department expense reports.

________ **EXIT INTERVIEW:** The employee may complete an *Exit Interview* questionnaire (optional). Exit Interview forms are available in the HR *Information for All Employees* LotusNotes database. Completed exit interview forms should be returned to Human Resources and will be shared with the Division Director (or Assistant Commissioner if the employee reports to the Director) and the Department's Affirmative Action Officer. *Note: Employees may request an in-person exit interview by contacting HRM.*

________ **PARKING TAG:** The employee must cancel contract parking by completing a cancellation form and turning in the parking tag. This is done through the Department of Administration's Plant Management office located on the Ground Floor of the Administration Building, 50 Sherburne Avenue (corner of Cedar and Sherburne). Tags must be turned in or the employee will continue to be billed for parking after they leave.

________ **FILES:** The employee must turn in Department files and records including information on computer diskettes as well as paper files.

________ **STATE PROPERTY:** The employee must return any State of Minnesota property purchased by the Department of Revenue. The following is a list of possible items to be returned. Check each item below that applies. *(The supervisor should contact the Inventory Coordinator for the Division/Work Unit to determine which items below are applicable.)*

___ Computers/laptops/hand held computers/printers/modems and accessories
___ Cell phones and accessories
___ Pagers
___ Telephone credit cards/Travel Purchase Cards/Other credit cards
___ Office furniture, equipment and supplies used in the employee's home that was paid for by the Department
___ Safety equipment

___ Briefcases/portfolios/luggage laptop cases
___ Cassette recorders and other electronic recording equipment
___ Library books, video tapes, and audio tapes
___ Calculators
___ Keys and key cards (coordinate with your Inventory Coordinator)
___ Other ____

________ **WORK-IN-PROGRESS:** Make arrangements to review work-in-progress and coordinate passing on information to the supervisor and/or co-workers.

________ **COMPLETION OF ASSIGNMENTS:** Have an agreement about what assignments need to be completed before the employee's last working day.

________ **SYSTEM ACCESS:** The supervisor must notify system administrators to suspend or delete the employee's user access to all department systems and networks (such as Active Directory, CACS, TPA, ITR, LotusNotes, SEMA4, etc.) by completing a MOSS request.

________ **COMPUTER FILES, DATABASES, PHONE:** The supervisor must complete a MOSS request to notify appropriate ISD staff when an employee is transferring within Revenue or leaving the Department. ISD staff will work with the supervisor to determine which files to save, transfer, or clear from the personal computer and/or laptop assigned to the employee; to coordinate removal of access to databases; and to determine phone and voicemail disposition. *(Note: Supervisors needing access to an employee's email or voicemail after they have left must contact Kathy Zieminski, Personnel Manager, HRM).*

________ **DELEGATIONS:** The supervisor must rescind employee's delegation of authority for those employees leaving the Department by contacting Margo Johnson in Appeals and Legal Services at (651)556-4077. When employees transfer to another work unit, notify Margo so she can coordinate with the new supervisor to determine which delegations to keep or rescind.

________ **DOR ID BADGE:** The supervisor must notify Human Resource Management (HRM) by email to "DOR Badges" at least 24 hours in advance of the employee's transfer within, or departure from, Revenue so they can deactivate the employee's badge access to the work area and/or Building. Additionally, if the employee is leaving the Department of Revenue, the employee must turn in the badge to their supervisor or to HRM, 1st Floor, Stassen Building, on their last day of work. If the badge is turned in to the supervisor, it must be returned to HRM by the next work day.

________ **FORMER EMPLOYEES REPRESENTING CLIENTS:** Provide the employee with a copy of Minnesota Statute § 270C.10. This law prohibits former Revenue employees from acting as counsel or agent for a taxpayer in any matter before the Department for one year after termination of employment. Violation of this Section is a gross misdemeanor. A copy of this statute is available in the HR *Information for All Employees* LotusNotes database entitled "Ex-employees of the Department of Revenue Representing Clients".

________ **DISCLOSURE:** Review disclosure issues as provided in Minn. Stat. § 270B.02, subd. 1. Former employees are bound by the tax disclosure laws to the same extent as when they were working for the Department. A summary of this statute is available in the HR *Information for All Employees* LotusNotes database entitled "Ex-employees of the Department of Revenue Representing Clients".

My signature below is confirmation that the information in this checklist has been reviewed and completed on the dates indicated and the property listed has been returned to the DOR.

____ ________________
Employee Signature Date

____ ________________
Supervisor Signature Date

Return completed form to: Human Resource Management Division, 1st Floor, Stassen Building

public/winword/handouts/separation checklist.doc Rev 8/06

February 4, 2008

Mr. James R. Nobles, Legislative Auditor
Office of the Legislative Auditor
Room 140 Centennial Building
658 Cedar Street
St. Paul, MN 55155

Dear Mr. Nobles,

Thank you for the opportunity to review and comment on your findings for the review of the federal schedule of expenditures for the Department of Finance.

The Department of Health concurs with the finding that financial statements were not adjusted correctly by the Department for CFDA numbers 10.557, 93.268, 93.283 and 93.777 to reflect additional accruals or adjustments in these federal grant programs. While we concur with this finding, it is important to note that this only relates to the reporting of the financial value of the vaccine in the state's financial statements and does not pertain to the administration of the vaccine itself.

As you are aware regarding the federal Vaccines for Children (VFC) program, the Department does not directly receive either the funding for vaccines or the vaccines themselves. Vaccines are requested from and distributed directly to health care providers across Minnesota, with the Department of Health providing administration of the program. As a result, the value of these vaccines is not included in the state's accounting system and is instead tracked through a different federal system. Recent changes in Financial Management staffing in this agency resulted in the oversight of including the value of these commodities in the federal Schedule of Expenditures as per the updated 2007 OMB A-133 compliance supplement.

To date, Department of Health Financial Management staff that prepare these financial statements have been briefed on the errors that were made, documentation has been included in the appropriate reference files for use next year, and additional staff have been identified as back-ups for this activity to ensure proper completion of future financial statements. By April 1, 2008, current and back-up staff will have reviewed prior federal expenditure schedules for accuracy and be trained in the process to ensure proper completion of future financial statements.

Thank you again for the opportunity to comment. If you have additional questions, please contact our Chief Financial Officer Craig Acomb at (651) 201-5661.

Sincerely,

Sanne Magnan, M.D., Ph.D.
Commissioner
P.O. Box 64975
St. Paul, MN 55164-0975

CC Margaret Kelly
Craig Acomb
Dave Hovet

February 5, 2008

Mr. James R. Nobles
Legislative Auditor
First Floor, Centennial Office Building
658 Cedar Street
St. Paul, MN 55155

Dear Mr. Nobles:

The following is the Department of Employment and Economic Development's (DEED) response to the finding and recommendation related to internal control over financial reporting as a result of the audit of the State of Minnesota's financial statements and the federal Schedule of Expenditures (Single Audit) for the year ended June 30, 2007.

Finding:

The Department of Employment and Economic Development improperly measured fiscal year 2007 liabilities, totaling $1.3 million for three federal programs.

Recommendation:

The Dept. of Finance and applicable state agencies should ensure that prior and current year accruals are properly reflected in the draft federal expenditure schedules.

Response:

We agree with the recommendation. The department will establish deadlines that will allow for the adequate manager review of the Federal Schedule of Expenditures prior to submission to the Department of Finance. In addition, the Department of Finance will be consulted regarding the level of detail that is required to be reported.

Responsible Person:

Cindy Farrell, Chief Financial Officer. Cindy.Farrell@state.mn.us or 651-259-7085.

Sincerely,

Dan McElroy
Commissioner

Department of Employment and Economic Development
1st National Bank Building ■ 332 Minnesota Street, Suite E200 ■ Saint Paul, MN 55101-2146 USA
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