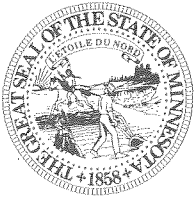

OFFICE OF THE ATTORNEY GENERAL
FINANCIAL AND COMPLIANCE AUDIT
FOR THE YEARS ENDED JUNE 30, 1985 AND 1986 AND
FOR THE SIX MONTHS ENDING DECEMBER 31, 1986

JUNE 1987

Financial Audit Division
Office of the Legislative Auditor
State of Minnesota



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

VETERANS SERVICE BUILDING, ST. PAUL, MN 55155 • 612/296-4708

JAMES R. NOBLES, LEGISLATIVE AUDITOR

Representative Phillip J. Riveness, Chairman
Legislative Audit Commission

Members of the Legislative Audit Commission

The Honorable Hubert H. Humphrey III
Attorney General

Audit Scope

We have completed a financial and compliance audit of the Office of the Attorney General for the years ended June 30, 1985 and 1986 and for the six months ending December 31, 1986. Section I provides a brief description of the Attorney General's Office activities and finances. Our audit was made in accordance with generally accepted auditing standards and the standards for financial and compliance audits contained in the U.S. General Accounting Office Standards for Audit of Governmental Organizations, Programs, Activities, and Functions, and accordingly, included such audit procedures as we considered necessary in the circumstances. Field work was completed on April 23, 1987.

The objectives of this audit were to:

- study and evaluate major department internal control systems, including receipts, disbursements, payroll, cash funds, and fixed assets;
- verify that financial transactions were properly recorded in the statewide accounting system;
- verify that financial transactions were made in accordance with the State Constitution, Article V, applicable laws, regulations, and policies, including Minn. Stat. Chapter 8 and other finance-related laws and regulations; and
- determine the status of prior audit recommendations included in our audit reports for the period January 1 to June 30, 1983, and the year ended June 30, 1984.

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

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

-- an audit to commence in December of the fourth year, so that a report is issued soon after the end of term.

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

Management Responsibilities

The management of the Office of the Attorney General is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgements by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with procedures may deteriorate.

The management of the Office of the Attorney General is also responsible for the agency's compliance with laws and regulations. In connection with our audit, we selected and tested transactions and records from the programs administered by the Office of the Attorney General. The purpose of our testing of transactions was to obtain reasonable assurance that the Office of the Attorney General had, in all material respects, administered its programs in compliance with applicable laws and regulations.

Audit Techniques

During our audit, we employed a variety of audit techniques. These included, but were not limited to, auditor observation, interviews with agency staff, analytical reviews to identify unusual transactions or trends, and the examination of documentation supporting a representative number of transactions. Judgmental sampling techniques were used to assure that representative samples of transactions were chosen. However, the use of judgmental sampling did not prohibit us from reviewing additional transactions which may have come to our attention during the audit.

Conclusions

In our opinion, except for the issues addressed in Section II, recommendations 1-6, the system of internal accounting control in the Office of the Attorney General in effect as of April 23, 1987, taken as a whole, was sufficient to provide management with reasonable, but not absolute

Representative Phillip J. Riveness, Chairman
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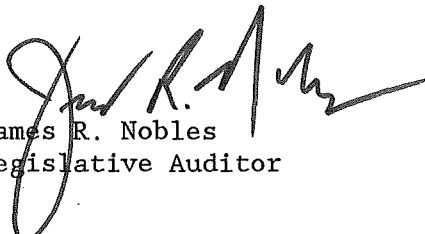
assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly.

In our opinion, for the period July 1, 1984 to December 31, 1986, the Office of the Attorney General properly recorded, in all material respects, its financial transactions on the statewide accounting system.

In our opinion, for the period July 1, 1984 to December 31, 1986, the Office of the Attorney General administered its programs in compliance, in all material respects, with applicable finance-related laws and regulations.

Section II of this report contains the recommendations we developed during this audit. They are presented to assist the department in improving accounting procedures and controls. We will be monitoring and reviewing the Office of the Attorney General's progress on implementing these recommendations during the next audit. A summary of the progress made on all audit recommendations discussed in our last audit report covering the six months ended June 30, 1983, and the year ended June 30, 1984, dated August 1985, is shown in Section III entitled "Status of Prior Audit Recommendations and Progress Toward Implementation."

We would like to thank the Attorney General's staff for their cooperation during this audit.


James R. Nobles
Legislative Auditor


John Asmussen, CPA
Deputy Legislative Auditor

June 23, 1987

OFFICE OF THE ATTORNEY GENERAL

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AUDIT PARTICIPATION

The following staff from the Office of the Legislative Auditor prepared this report:

John Asmussen, CPA	Deputy Legislative Auditor
Warren Bartz, CPA	Audit Manager
Mike Hassing	Auditor-in-Charge
Sonya Hill	Staff Auditor
Diane Jaquet	Intern

EXIT CONFERENCE

The findings and recommendations in this report were discussed with the following staff of the Office of the Attorney General on May 1, 1987:

John Tunheim	Chief Deputy Attorney General
Joseph Reid	Administrative Manager
Rebecca Spartz	Assistant Administrative Manager

OFFICE OF THE ATTORNEY GENERAL

I. INTRODUCTION

The Attorney General's Office (AGO) was established by Article V of the Constitution of the State of Minnesota. The Attorney General is elected for a four year term, operates under Minn. Stat. Chapter 8, and is a member of the Executive Council, the Pardons Board, the Land Exchange Board, and the State Board of Investment. The Attorney General's main duties include providing legal advice, representing state agencies and their officials, and offering direct legal assistance to citizens of the Minnesota. The Attorney General also represents Minnesota in civil and criminal cases.

The activities of the AGO are financed mainly through General Fund appropriations and federal grants. The majority of the AGO expenditures (approximately 84%) are for personnel costs. The summary below shows expenditures of the office for the periods audited.

	<u>Year Ended</u> <u>June 30, 1985</u>	<u>Year Ended</u> <u>June 30, 1986</u>	<u>Six Months Ended</u> <u>December 31, 1986</u>
Personnel Expenditures	\$12,515,520	\$13,041,365	\$5,850,190
Travel	265,645	229,127	120,902
Supplies and Equipment	450,778	369,710	223,507
Contracts	280,825	283,775	43,021
Other Administrative Expenditures	<u>1,411,891</u>	<u>1,505,770</u>	<u>715,351</u>
TOTAL	<u>\$14,924,759</u>	<u>\$15,429,727</u>	<u>\$6,953,011</u>

The AGO recovers costs associated with work done for non-General Fund agencies. The AGO recovered \$3,127,610 in nondedicated receipts for the year ended June 30, 1985, and \$3,920,880 for the year ended June 30, 1986. These receipts were deposited into the General Fund.

OFFICE OF THE ATTORNEY GENERAL

II. CURRENT FINDINGS AND RECOMMENDATIONS

PRIOR RECOMMENDATION PARTIALLY IMPLEMENTED: The AGO is not adequately monitoring the need for and use of its Central Motor Pool cars.

The AGO currently has five motor pool cars assigned on a monthly basis. Suggested Central Motor Pool (CMP) procedures are to have cars assigned on a monthly basis used approximately 1,500 miles a month. During the period July 1, 1984, to December 31, 1986, the AGO returned cars to CMP because they were not meeting the suggested minimum mileage. However, the AGO is still incurring unnecessary costs due to the lack of adequate review and monitoring of motor pool car usage. These costs were incurred in the following situations:

- AGO staff reserved motor pool cars, but never canceled the car when the trip was canceled;
- AGO staff obtained a motor pool car but drove less than 50 miles, which costs more than reimbursing the employee for personal mileage; and
- other motor pool cars were requested and used when one of the AGO assigned cars was available.

For the year ended June 30, 1986, \$26,086 was paid for motor pool car usage. In order to maximize the usage of permanently assigned motor pool cars at the lowest possible cost to the AGO, a better system for monitoring and assigning the use of motor pool cars needs to be developed. A more centralized system of issuing assigned cars, requesting motor pool cars, and monitoring personal mileage reimbursements would provide the greatest cost savings to the AGO.

RECOMMENDATION:

1. The AGO should establish controls to screen car requests and monitor the use of permanently assigned motor pool cars, the use of periodically requested motor pool cars, and personal mileage shown on employee travel expense reimbursements.

PRIOR RECOMMENDATION PARTIALLY IMPLEMENTED: Total billings and total receipts shown on the accounts receivable control account need to be reconciled to the billing system totals and Statewide Accounting (SWA) System totals.

The AGO bills state agencies for legal services rendered. These billings are based upon actual time spent by the AGO attorneys and any disbursements incurred on behalf of the client. Receipts from these billings were approximately \$3.9 million in fiscal year 1986.

OFFICE OF THE ATTORNEY GENERAL

In a previous audit, we recommended that the AGO maintain an accounts receivable control account, reconciling total billings and total receipts per the control account to the billing system totals and SWA totals on an annual basis. The AGO has developed an accounts receivable control account, and reconciles the charges from the time sheets and the expense reimbursements to the amounts shown in the billing system. However, no reconciliation of collections to receipts shown on the SWA system has been completed. Controls over billings could be improved with the reconciliation of this control account to SWA system totals to ensure that all receipts from billings have been collected and properly recorded on SWA records.

RECOMMENDATION:

2. The AGO should periodically reconcile the accounts receivable control account to both the billing system and SWA system totals.

The AGO needs to improve controls over the imprest cash account.

The AGO maintains an imprest cash checking account with a \$2,000 approved balance. The account is used to pay for travel advances and for copies, witness fees, filing fees, and other miscellaneous expenses. These disbursements were adequately documented except for travel advances.

Travel advances are documented solely on the check stubs. No control account of outstanding advances is maintained. To provide effective control over travel advances, a ledger identifying the check number, payee, date of advance, dollar amount, and the repayment date is needed. In this way, past-due advances can be immediately identified and collected.

Voided imprest cash checks are currently destroyed with only a note written on the check stub to indicate the void date. In maintaining adequate controls over the imprest cash account, voided checks need to be retained and filed to prevent subsequent use and to provide an audit trail for all checks drawn on the account.

Another concern with voided checks is that noncurrent voided checks are not deducted on the request for reimbursement of the imprest account. The AGO issues a check to the Department of Finance (DOF) for the amount of the voided check to prevent an overage of the authorized amount since the check was reimbursed in a preceding period. This causes unnecessary checks to be issued to DOF and increases the possibility of errors. The amount of the voided check could be subtracted from the request for reimbursement. In this way, a sufficient audit trail would be established through SWA records and through the AGO's reconciliations of the checking account balance to the imprest cash authorized amount.

RECOMMENDATIONS:

3. Travel advance logs should be maintained and include check number, payee, date, amount, and date of repayment.

OFFICE OF THE ATTORNEY GENERAL

4. All voided imprest cash checks should be retained and filed.
5. Noncurrent voided imprest cash checks should be deducted from the subsequent request for reimbursement. The account balance should then be reconciled to the authorized amount.

The Attorney General's Office needs to account for all fixed asset additions.

The AGO has been accounting for their fixed assets on the Fixed Asset Record Management System (FARMS) since the fall of 1985. Assets obtained through the state procurement process are automatically added to FARMS. The responsibility for updating the system for other asset acquisitions is with the individual agencies.

During the period from July 1, 1985, through December 31, 1986, the AGO acquired 35 assets with an accumulated value of \$20,405. Four of these assets, acquired directly by the agency, were not input into FARMS. Department of Administration procedures require that agencies promptly update the FARMS to account for fixed asset purchases. The Fixed Asset Property Record Notification forms are to be used as an input document to add assets to FARMS. The forms are to be retained in the agency for at least two years. The addition forms for the four assets were not on file at the agency.

By not updating FARMS to properly account for their acquisitions, the AGO is understating the value of their fixed assets. Also, an incomplete system does not allow for the proper physical control of assets owned by the AGO.

RECOMMENDATION:

6. The AGO should update the Fixed Asset Record Management System (FARMS) to include missing assets and add any future acquisitions to the system for providing accurate accountability of all assets owned by the department.

OFFICE OF THE ATTORNEY GENERAL

III. STATUS OF PRIOR AUDIT RECOMMENDATIONS
AND
PROGRESS TOWARD IMPLEMENTATION

Controls over the state agency client billing system need to be improved.

1. Input controls should be established to minimize errors for client and batch numbers entered in the billing system.

RECOMMENDATION IMPLEMENTED. During fiscal year 1985, the original proof reading requirements for the billing system were expanded to include the use of a "HASH" program to detect any errors in client identification numbers or project/activity numbers. This program also gives a total of the time charged to a particular client for manual comparison of system totals. Someone other than the person who input the batch compares a printout of the batch to the actual time sheets to verify the accuracy of the time charged to clients. That person also completes an adding machine tape of the time charged as shown on the system and compares it to the "HASH" total.

2. Client bills should be based on actual hours worked on individual cases. If formulas are used for billing purposes, they should be well documented and periodically reviewed for reasonableness.

RECOMMENDATION IMPLEMENTED. During fiscal year 1986, client billings were based on actual hours worked and any disbursements applicable to that client.

3. The AGO should maintain an accounts receivable control account. Total billings and total receipts per the control account should be annually reconciled to the billing system total and SWA totals respectively.

RECOMMENDATION PARTIALLY IMPLEMENTED. During fiscal year 1986, an accounts receivable control account was developed. However, total billings and receipts per the control account were not reconciled to either billing system totals or to SWA totals. See current recommendation #4.

The AGO needs to maintain supporting documentation for all disbursements from the petty cash account.

4. All disbursements from the petty cash account should be adequately documented and acknowledged in writing by the individual who requested the disbursement.

RECOMMENDATION IMPLEMENTED. Beginning in September 1985, the individual's signature for approval and formal documentation was required to support all disbursements from the petty cash account.

OFFICE OF THE ATTORNEY GENERAL

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

5. Personnel forms should contain the written approval of the general service manager or the administrative manager to separate the responsibilities involved in the personnel area.

RECOMMENDATION IMPLEMENTED. Starting in July 1985, the administrative manager signs and approves personnel forms prepared by the personnel director.

The AGO is not adequately monitoring the need for and use of its Central Motor Pool cars.

6. The AGO should review the need for permanently assigned motor pool cars and monitor use of its permanently and periodically requested motor pool cars.

RECOMMENDATION PARTIALLY IMPLEMENTED. During fiscal year 1986, the AGO monitored the need for pool cars and returned some cars not meeting minimum mileage to Central Motor Pool. However, employees still use Central Motor Pool cars when AGO permanently assigned state cars are available. See current recommendation #1.



STATE OF MINNESOTA
OFFICE OF THE ATTORNEY GENERAL

HUBERT H. HUMPHREY, III
ATTORNEY GENERAL

ST. PAUL 55155
June 23, 1987

ADDRESS REPLY TO:
102 CAPITOL BUILDING
ST. PAUL, MN 55155
TELEPHONE: (612) 296-6196

Mr. James R. Noble
Legislative Auditor
Office of the Legislative Auditor
Veterans Service Building
First Floor, West Wing
St. Paul, MN 55155

Dear Mr. Noble:

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

RECOMMENDATIONS

1. The AGO should establish controls to screen car requests and monitor the use of permanently assigned motor pool cars, the use of periodically requested motor pool cars, and personal mileage shown on employee travel expense reimbursements.

Person Responsible for Action: Rebecca Spartz
Completion Date: July 15, 1987
Action Taken:

The office is continuing to monitor instances when motor pool car reservations are not cancelled. A member of the Accounting Unit contacts the responsible staff member and explains the need to cancel all reservations because of the charge incurred.

Several examples of motor pool car useage under fifty miles were by staff who do not drive to work. Any such usage by staff with personal automobiles will be monitored.

We will issue a reminder memo about reserving available office cars before reserving motor pool vehicles and will review the monthly use reports.

2. The AGO should periodically reconcile the accounts receivable control account to both the billing system and SWA system totals.

Person Responsible for Action: Sharon Gregoire
Completion Date: August 1, 1987

Action Taken:

Commencing with the new fiscal year, the reconciliation will occur on a monthly basis. Billing information is transferred to the accounts receivable at the time bills are sent to clients. Receipts information is recorded monthly from routine SWA reports.

- 3. Travel advance logs should be maintained and include check number, payee, date, amount, and date of repayment.

Person Responsible for Action: Lynette Seal
Completion Date: June 1, 1987
Action Taken:

Recommendation has been implemented.

- 4. All voided imprest cash checks should be retained and filed.

Person Responsible for Action: Lynette Seal
Completion Date: June 1, 1987
Action Taken:

Recommendation has been implemented.

- 5. Noncurrent voided imprest cash checks should be deducted from the subsequent request for reimbursement. The account balance should then be reconciled to the authorized amount.

Person Responsible for Action: Lynette Seal
Completion Date: June 1, 1987
Action Taken:

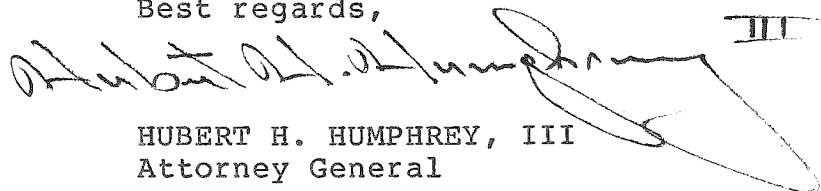
Recommendation has been implemented.

- 6. The AGO should update the Fixed Asset Record Management Sysyem (FARMS) to include missing assets and add any future acquisitions to the system for providing accurate accountability of all assets owned by the department.

Person Responsible for Action: Lynette Seal
Completion Date: September 1, 1987
Action Taken:

This recommendation is being implemented.

Best regards,


HUBERT H. HUMPHREY, III
Attorney General