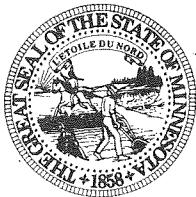


**OFFICE OF THE STATE TREASURER
FINANCIAL AND COMPLIANCE AUDIT
FOR THE PERIOD JANUARY 1, 1987 TO JUNE 30, 1988**

APRIL 1989



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

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

JAMES R. NOBLES, LEGISLATIVE AUDITOR

Senator John E. Brandl, Chairman
Legislative Audit Commission

Members of the Legislative Audit Commission

and

The Honorable Michael A. McGrath
State Treasurer

Audit Scope

We have completed a financial and compliance audit of the Office of the State Treasurer for the period January 1, 1987 to June 30, 1988. Section I provides a brief description of the State Treasurer'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 Government Auditing Standards, and accordingly, included such audit procedures as we considered necessary in the circumstances. Fieldwork was completed on March 23, 1989.

The State Treasurer is an independently elected constitutional officer of the State of Minnesota. Duties and responsibilities of the State Treasurer relating to cash, warrants, investments, and bonded debt for the audit period were reviewed as part of our Statewide Audits for the years ended June 30, 1987 and 1988. We issued management letters dated February 29, 1988 and February 13, 1989, on the results of those reviews.

This audit was conducted in accordance with Minn. Stat. Section 3.973 and the policy of the Legislative Auditor to perform audits of the administrative practices of the six elected state constitutional officers as follows:

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

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

Internal Accounting Control Systems

One objective of this audit was to study and evaluate major internal accounting control systems over receipts, payroll, administrative disbursements, fixed assets, and imprest cash, in effect as of February 28, 1989.

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The management of the Office of the State Treasurer is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments 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 the procedures may deteriorate.

Finance-Related Legal Provisions

Another objective of this audit was to verify that financial transactions were made in accordance with significant finance-related laws. The Office of the State Treasurer was established pursuant to Article V of the State Constitution. Article XI, Section 7 of the State Constitution prescribes the duties of the State Treasurer relating to bonds. Various statutory provisions further specify the duties of the State Treasurer. Technically, certain of these provisions identify the Commissioner of Finance as responsible party, but in practice the functions are performed by the State Treasurer. Minn. Stat. Chapter 7 establishes certain general duties for the State Treasurer. In addition, Minn. Stat. Section 9.031 provides for designation of state depositories and defines the required collateral to secure state funds. Other statutory provisions authorize the State Treasurer to collect various fees. Minn. Stat. Sections 517.08 and 357.02, Subd. 2 provide for the collection of marriage license and marriage dissolution fees by the State Treasurer. Minn. Stat. Section 609.101 provides for the collection of surcharges and assessments on fines by the State Treasurer. In addition, Minn. Laws 1985, First Special Session, Chapter 13, Section 13, and Minn. Laws 1987, Chapter 404, Section 12 provided appropriations for operation of the Office of the State Treasurer.

The Office of the State Treasurer is also subject to certain general legal provisions which affect the financial management of most state agencies. Minn. Stat. Section 15.191 limits the use of imprest cash accounts to those authorized by the Department of Finance. Minn. Stat. Section 16A.15 requires that funds be encumbered before an obligation is incurred. Minn. Stat. Section 16A.275 requires that receipts totalling or exceeding \$250 be deposited on a daily basis. Minn. Stat. Section 16B.06-09 outlines the procedures for bids and purchases. Minn. Stat. Section 43A.07-.08 provides the authority for classification of employees and salary changes as negotiated with the various bargaining units. Bargaining unit contracts

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and plans applicable to the Office of the State Treasurer include the Commissioners Plan, the Managerial Plan, Council 6, MAPE, and Middle Management.

The management of the Office of the State Treasurer is 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 State Treasurer. The purpose of our testing of transactions was to obtain reasonable assurance that the Office of the State Treasurer had, in all material respects, administered its programs in compliance with the aforementioned laws and regulations.

Status of Prior Audit Findings

Two of the three findings from the management letter for the year ended June 30, 1987 have been resolved. The other finding, relating to monitoring state depository collateral, was repeated in the management letter for the year ended June 30, 1988. The status of that recommendation will be reviewed during the Statewide Audit for the year ended June 30, 1989.

Conclusions

In our opinion, the Office of the State Treasurer's system of internal accounting control in effect on February 28, 1989, taken as a whole, was sufficient 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.

The results of our testing of transactions and records indicate that the Office of the State Treasurer complied with the aforementioned finance-related legal provisions, except for monitoring state depository collateral identified as finding #3 in our fiscal year 1987 management letter and finding #1 in our fiscal year 1988 management letter. Nothing came to our attention in connection with our audit that caused us to believe that the Office of the State Treasurer was not in compliance with other applicable legal requirements.

We would like to thank the Office of the State Treasurer's staff for their cooperation during this audit.


James R. Nobles
Legislative Auditor


John Asmussen, CPA
Deputy Legislative Auditor

March 23, 1989