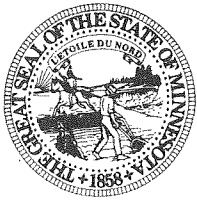


**OFFICE OF THE ATTORNEY GENERAL
FINANCIAL AND COMPLIANCE AUDIT
FOR THE SIX MONTHS ENDING JUNE 30, 1987
AND THE YEAR ENDED JUNE 30, 1988**

MAY 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 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 six months ending June 30, 1987 and the year ended June 30, 1988. 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 Government Auditing Standards, and accordingly, included such audit procedures as we considered necessary in the circumstances.

Audit Schedule

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.

Internal Accounting Control Systems

One objective of this audit was to study and evaluate major internal control systems, including receipts, payroll, and other disbursements at the Office of the Attorney General, in effect as of February 1, 1989.

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 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 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 Attorney General is governed generally by the State Constitution, Article V and Minn. Stat. Chapter 8. Article V creates the office and Chapter 8 establishes the general purpose for its financial transactions. More specifically, Minn. Stat. Section 8.02, Subd. 1 allows for appointment of six deputy and 35 assistant attorneys general. Minn. Stat. Section 8.06 allows the Office of the Attorney General to employ and fix the compensation of special attorneys for any state officer, board, or commission.

Minn. Laws 1985, First Special Session, Chapter 13, Section 14, and Minn. Laws 1987, Chapter 404, Section 13, provided appropriations for operations of the Office of the Attorney General. Minn. Stat. Section 8.15 requires the Office of the Attorney General to assess executive branch agencies a fee for legal services rendered to them. Minn. Stat. Section 8.31, Subd. 3 provides for recovery and deposit of certain penalties. In addition, Minn. Stat. Section 309.52, Subd. 2 provides for payment of registration fees by charitable organizations. Minn. Stat. Section 325G.27, Subd. 1 provides for payment of registration fees by health, social referral, or buying clubs. These fees are deposited to the General Fund as nondedicated receipts.

The Office of the Attorney General is also subject to certain general legal provisions which affect the financial management of most state agencies. Minn. Stat. Section 16A.275 requires prompt depositing of receipts accumulating to more than \$250. Minn. Stat. Section 16A.15 requires that funds be encumbered before an obligation is incurred. Minn. Stat. Sections 16B.07-.08 require that competitive bids be let for all public contracts over \$15,000. Minn. Stat. Sections 43A.07-.08 provide the authority for classification of employees and salary changes as negotiated with the various bargaining units. Bargaining unit contracts and plans applicable to the Office of the Attorney General include AFSCME, MAPE, MMA, the managerial plan, the commissioner's plan, and the Attorney General's compensation plan.

Senator John E. Brandl, Chairman
Members of the Legislative Audit Commission
The Honorable Hubert H. Humphrey, III
Attorney General
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The management of the Office of the Attorney General 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 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.

Status of Prior Audit Findings

We have reviewed the status of audit findings included in the audit report for fiscal years ended June 30, 1985 and 1986, and the six months ended December 31, 1986. The final report was issued May 8, 1987, and the follow-up report was issued September 21, 1988. The findings have all been resolved.


Conclusions


In our opinion, the Office of the Attorney General's system of internal accounting control in effect as of February 1, 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.

Section II, findings 3-5, represent weaknesses in the Office of the Attorney General's system of internal controls. We believe the weaknesses subject the Office of the Attorney General's internal controls to an unnecessary financial risk and should be corrected. The current recommendations included in this report are presented to assist the office in improving accounting procedures and controls. Progress on resolving these issues will be reviewed before the next audit.

The results of our testing of transactions and records indicate that the Office of the Attorney General complied in all material respects with the aforementioned finance-related legal provisions, except for the instances of noncompliance discussed in findings 1 and 2. Nothing came to our attention in connection with our audit that caused us to believe that the Office of the Attorney General was not in compliance with other applicable legal requirements.

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


James R. Nobles
Legislative Auditor


John Asmussen, CPA
Deputy Legislative Auditor

END OF FIELDWORK: March 10, 1989
REPORT SIGNED ON: May 24, 1989

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
Claudia Gudvangen, CPA	Audit Manager
Charlie Gill	Auditor-in-Charge
Carl Otto	Staff Auditor
Beth Hammer	Staff Auditor

EXIT CONFERENCE

The findings and recommendations in this report were discussed with the following staff of the Office of the Attorney General on April 6, 1989:

Joseph Reid	Administrative Manager
Rebecca Spartz	Assistant Administrative Manager
Sandra Caron	Personnel Manager
Sharon Gregoire	Management Information Systems Manager
Lynette Seal	Account Clerk

OFFICE OF THE ATTORNEY GENERAL

I. INTRODUCTION

The Office of the Attorney General was established by Article V of the Constitution of the State of Minnesota. The Attorney General is elected for a four year term 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 Office of the Attorney General are financed mainly through General Fund appropriations and federal grants. The majority of office expenditures (approximately 81 percent) are for personnel costs. The summary below shows expenditures of the office for the year ended June 30, 1988.

Office of the Attorney General
Expenditures, Including Obligations
Year Ended June 30, 1988

Personnel expenditures	\$14,524,700
Travel	249,672
Supplies and equipment	866,435
Expenses and contractual services	1,685,624
Other	<u>626,293</u>
TOTAL	<u>\$17,952,724</u>

Source: Statewide Accounting System Managers Financial Report as of September 3, 1988.

The Office of the Attorney General recovers costs associated with work performed for agencies. During the year ended June 30, 1988, the office collected approximately \$4,200,000 which was deposited to the General Fund as nondedicated receipts.

OFFICE OF THE ATTORNEY GENERAL

II. CURRENT FINDINGS AND RECOMMENDATIONS

1. Contracts are signed and obligations are incurred before funds are encumbered.

The Office of the Attorney General periodically contracts with private attorneys to provide legal services for state agencies as well as with other consultants for special services. For 8 of 11 contracts tested, work was performed before funds were properly encumbered. Department of Finance operating policy and procedure 06:04:05 requires agencies to requisition funds for encumbrance before contracts and amendments are signed. As a matter of routine practice, the Attorney General's office is not complying with this provision.

Minn. Stat. Section 16A.15, Subd. 3, provides in part, ". . . an obligation may not be incurred against any fund, allotment, or appropriation unless the commissioner has certified a sufficient unencumbered balance in the fund, allotment, or appropriation to meet it. . . ." To ensure that funds are available to pay contractual obligations, agencies must requisition and encumber funds before work is started on a contract. The agency could sign a contract and incur an obligation without having sufficient funds available.

RECOMMENDATION

- The Office of the Attorney General should develop appropriate procedures and controls to ensure that funds are properly encumbered before obligations are incurred.

2. Receipts are not deposited promptly.

The Office of the Attorney General collects various receipts, including litigation settlements, registration fees and certain penalties. The office is not complying with statutory requirements for deposit of these receipts. Litigation deposits, ranging from \$1,228 to \$25,000, were held four to fifteen days. Deposits of registration fees and penalties, ranging from \$400 to \$1,975, were held five to eight days.

Minn. Stat. Section 16A.275 states that agencies, "shall deposit receipts totaling \$250 or more in the state treasury daily." Subd. 2 further states that the "commissioner (Finance) may authorize an agency to deposit receipts totaling \$250 or more less frequently than daily for those locations where the agency furnishes documentation to the commissioner that the cost of making daily deposits exceeds the lost interest earnings and the risk of loss or theft of the receipts."

The Attorney General's current organization of the receipt process may cause some of the delays. Monies are received at various locations and forwarded to the main office. For litigation receipts, the checks are

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routed to the attorneys to determine if the state has the right to deposit them or if additional signatures are needed from third parties. We question the need to transmit the actual checks to the various divisions. We believe that, in most instances, checks should go directly to the accounting unit with other supporting documentation submitted to the various divisions.

RECOMMENDATION

- Receipts in excess of \$250 should be deposited daily, in accordance with Minn. Stat. Section 16A.275.

3. The Office does not verify that payroll timesheet errors are resolved.

The Office of the Attorney General maintains a computerized time and billing system. This system is the basis for subsequent billings to clients for attorney services rendered. Information is input in the system from employee timesheets.

Sometimes employee timesheets are missing employee hours or other information such as client numbers. The computer operators then send a copy of the timesheet back to the employee for correction. However, the operators do not maintain any type of log to verify that corrected timesheets are received back. One timesheet reviewed totaled only 72 1/2 hours. There was no indication that this discrepancy was ever resolved. The employee could have taken leave and not had the leave records updated. In addition, billings based on erroneous information could result in lost income. A monitoring system should be developed and maintained to ensure that these issues are resolved.

RECOMMENDATION

- Procedures should be implemented to ensure that timesheet errors or missing information are reviewed and resolved.

4. Activity in the miscellaneous litigation account is not monitored.

The Office of the Attorney General administers settlements from various lawsuits the office is involved in. Normally, large settlements are deposited in separate accounts in the state treasury, where funds are held until paid out to rightful parties. The Attorney General also maintains a miscellaneous litigation account in the state treasury for smaller settlements. Accounting staff have not been appropriately monitoring the settlement balances and related disbursements in this account. The individual balances are known only to the attorneys in charge of a given settlement.

The miscellaneous litigation account is credited with investment income monthly as a part of the state's pooled investment account. Interest accumulates in the litigation account and has not been distributed to the

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balances or paid out to settlement recipients as originally intended. In addition, during an 18 month period ending February 1989, \$14,739 for reimbursement of medicaid fraud unit prosecution costs was inappropriately deposited in the litigation account. The monies should have been deposited in the General Fund as nondedicated receipts. Because the litigation account is not appropriately controlled and monitored, the Office of the Attorney General could pay out incorrect settlement balances.

RECOMMENDATION

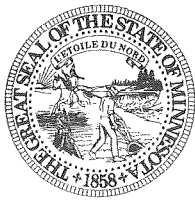
- The Office of the Attorney General should develop a system to provide proper accounting for and disposition of miscellaneous litigation settlements.

5. Internal control over purchases should be strengthened.

Staff of the Office of Attorney General have offices in various locations in St. Paul and Minneapolis. The offices directly receive their goods purchased. The office receptionists are supposed to sign and date the packing slip when an order is received. The packing slip is to be returned to the accounting department. In four out of five purchases sampled, the payment documentation did not include a signed and dated packing slip. When packing slips are missing, accounting personnel call the applicable areas to determine if the goods were received. The verification is not documented in writing. Finance procedure 06:05:01 requires comparison of invoices with authorizing documents and receiving reports to validate that the payment is proper. Without proper verification, invoices may be paid without having received the items purchased.

RECOMMENDATION

- The Office of the Attorney General should require that receiving reports be compared with purchase orders and invoices before payments are made to vendors.



STATE OF MINNESOTA
OFFICE OF THE ATTORNEY GENERAL
ST. PAUL 55155

HUBERT H. HUMPHREY, III
ATTORNEY GENERAL

May 15, 1989

ADDRESS REPLY TO:
102 CAPITOL BUILDING
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TELEPHONE: (612) 296-6196
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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 have reviewed the recommendations of your staff, and would like to bring you up to date on what we have done and are doing to improve our procedures and controls.

RECOMMENDATIONS

1. The Office of the Attorney General should develop appropriate procedures and controls to ensure that funds are properly encumbered before obligations are incurred.

Person Responsible for Action: Rebecca Spartz
Completion Date: June 1, 1989
Action Taken:

The Attorney General's Office has a procedure which is to be followed when outside legal counsel or consultant services are contracted. The office will give new notice to all current staff members and will advise all new employees of the office procedure.

The office has had sufficient funds available to meet all its contractual obligations.

2. Receipts in excess of \$250 should be deposited daily, in accordance with Minn. Stat. § 16A.275.

Person Responsible for Action: Rebecca Spartz
Completion Date: June 1, 1989
Action Taken:

With the exception of the examples given below, the procedure the Attorney General's Office follows for deposits of receipts meets the statutory requirement for daily deposits of receipts in excess of \$250.00.

Mr. James R. Noble
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There are occasions when it is impractical to deposit receipts immediately:

- (1) The attorney representing the state must review the court's instructions to determine that the check satisfies the court order. As soon as that determination is made, the check is deposited.
 - (2) Registration fees for regulated charities and clubs must be reviewed by the charities and consumer divisions to verify that registration by these organizations is required. When registration is not required, the check is returned. All other checks are deposited daily.
3. Procedures should be implemented to ensure that timesheet errors or missing information are reviewed and resolved.

Person Responsible for Action: Sharon Gregoire
Completion Date: April 15, 1989
Action Taken:

Recommendation has been implemented.

Copies are made of each timeslip containing incomplete information. The employee name/number/location/date of timeslip and the date the copy was forwarded are recorded in an ongoing log;

The timeslip copies are forwarded to appropriate staff who are responsible for obtaining missing or incomplete information and returning the edited copies to the MIS Unit;

When the edited copy of the timeslip entry is received, the entry is removed from the log;

The timeslip entry is processed by data entry operators;
and

The edited timeslip copy is ultimately filed with the original timereports.

4. The Office of the Attorney General should develop a system to provide proper accounting for and disposition of miscellaneous litigation settlements.

Person Responsible for Action: Lynette Seal
Completion Date: June 1, 1989
Action Taken:

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Recommendation has been implemented.

Separate APIDs have been established for each settlement.

5. The Office of the Attorney General should require that receiving reports be compared with purchase orders and invoices before payments are made to vendors.

Person Responsible for Action: Rebecca Spartz

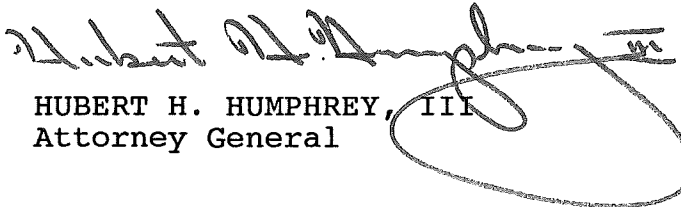
Completion Date: June 1, 1989

Action Taken:

Recommendation has been implemented.

All Attorney General locations have been notified that packing slips must be forwarded to the office's accounting unit. The unit's accounting personnel will monitor invoices received from all locations to ensure that packing slips are attached.

Best regards,



HUBERT H. HUMPHREY, III
Attorney General

HHH:III:jp