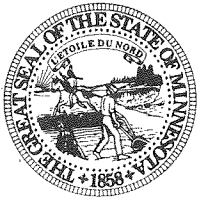


**OFFICE OF THE STATE AUDITOR
FINANCIAL AND COMPLIANCE AUDIT
FOR THE SIX MONTHS ENDING JUNE 30, 1987
AND THE FISCAL YEAR ENDED JUNE 30, 1988**

JULY 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 Arne H. Carlson
State Auditor

Audit Scope

We have completed a financial and compliance audit of the Office of the State Auditor for the six months ended June 30, 1987 and the fiscal year ended June 30, 1988. Section I provides a brief description of the State Auditor's 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.

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 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, including payroll, equipment, administrative expenditures, the Police/Fire Relief Oversight Division and the Single Audit account, in effect as of January 31, 1989.

The management of the Office of the State Auditor 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, error 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 powers and duties of the State Auditor are prescribed by the State Constitution, Article V. Minn. Stat. Chapter 6 gives the State Auditor additional responsibilities.

The State Auditor's Office has various funding sources. Minn. Stat. Section 6.58 established a Revolving Fund to provide the costs used in connection with reimbursable examinations. Additional funding was provided by General Fund appropriations. Minn. Laws 1985, First Special Session, Chapter 13, Section 12 established the operating appropriation for fiscal years 1986 and 1987. Minn. Laws 1987, Chapter 404, Section 11 established the fiscal year 1988 appropriation.

The State Auditor's Office is also subject to certain general legal provisions which affect the financial management of most state agencies. Minn. Stat. Section 16A.15 requires that funds be encumbered before an obligation is incurred. Minn. Stat. Section 16B.07 requires that competitive bids be obtained on contracts for purchase or rental of equipment. Minn. Stat. Sections 43A.07-.08 provide the authority for classification of employees and salary changes as negotiated with the various bargaining units, and as covered under the State Auditor's Compensation Plan.

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

Work of Other Auditors

A financial and compliance audit of the Revolving Fund is conducted by a CPA firm. We have evaluated and accepted their work as part of our audit for the years ended June 30, 1987 and June 30, 1988. The firm's management letter included a finding and recommendation on the accumulated deficit in the Revolving Fund. They recommended continued efforts to raise the fund level to the amount recommended by statute.

Senator John E. Brandl, Chairman
Members of the Legislative Audit Commission
The Honorable Arne H. Carlson
State Auditor
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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 June 1987. The findings have all been resolved.


Conclusions

In our opinion, the Office of the State Auditor's system of internal accounting control in effect on January 31, 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 Auditor complied with the aforementioned finance-related legal provisions, except for the issue discussed in Section II, finding 1, and the finding included in the other auditor's management letter. Nothing came to our attention in connection with our audit that caused us to believe that the State Auditor's Office was not in compliance with other applicable legal requirements.

We will review the State Auditor's progress on implementing the current recommendation before our next audit. We would like to thank the State Auditor's staff for their cooperation during this audit.


James R. Nobles
Legislative Auditor


John Asmussen, CPA
Deputy Legislative Auditor

END OF FIELDWORK: March 3, 1989

REPORT SIGNED ON: July 6, 1989

OFFICE OF THE STATE AUDITOR

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AUDIT PARTICIPATION

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

John Asmussen, CPA	Deputy Legislative Auditor
Warren Bartz, CPA	Audit Manager
Kari Bergum, CPA	Auditor-in-Charge
Joan Haskin	Staff Auditor

EXIT CONFERENCE

The finding and recommendation in this report was discussed with the following staff of the Office of the State Auditor on March 17, 1989:

Fred Boethin, CPA	Director of Audits
Deborah Phelps	Accounting Supervisor

OFFICE OF THE STATE AUDITOR

I. INTRODUCTION

The Office of the State Auditor (OSA) was established by Article V of the State Constitution and operates under Minn. Stat. Chapter 6. The State Auditor is elected for a four year term and is a member of the Executive Council, the State Board of Investment, the Housing Finance Agency and the Public Employees Retirement Association Board. The State Auditor is required by law to make annual financial/compliance audits of counties, regional development commissions and cities of the first class, but also audits school districts and local units of government upon the request of the governing body or upon the petition of the people. In addition, the State Auditor, through the Governmental Informational Division, collects data from all subdivisions of the state and prepares special reports for the Legislature and the public. The Police/Fire Relief Oversight Division, which was controlled by the Department of Revenue until 1987, oversees the financial reporting for the various police and fire relief associations throughout the state.

The operations of the OSA are financed primarily through fees collected from client billings. These funds are accounted for in the State Auditor's Revolving Fund and are audited by a certified public accounting firm. The OSA also receives an appropriation from the General Fund which is used to fund the duties of the State Auditor, the Governmental Information Division, the Single Audit work, and the Police/Fire Relief Oversight work. The majority of the expenditures of the OSA are for personnel costs. Shown below is a summary of expenditures for the period January 1, 1987 through June 30, 1987, and fiscal year 1988.

Office of the State Auditor Expenditures, Including Obligations

	Six Months Ended <u>June 30, 1987</u>	Year Ended <u>June 30, 1988</u>
<u>General Fund</u>		
Personnel services	\$ 214,593	\$ 465,417
Travel and subsystems	336	9,526
Supplies and equipment	23,057	20,853
Other administrative expenses	59,077	7,619
Total	<u>\$ 297,063</u>	<u>\$ 503,415</u>
<u>Revolving Fund</u>		
Personnel services	\$1,770,773	\$3,396,684
Travel and subsistence	106,297	224,201
Supplies and equipment	13,175	77,804
Other administrative expenses	211,381	223,453
Total	<u>\$2,101,596</u>	<u>\$3,922,142</u>

Source: Statewide Accounting Managers Financial Report as of
September 5, 1987 and September 3, 1988.

Total expenditures for Single Audit work for the six months ended June 30, 1987, and fiscal year 1988 were \$29,184 and \$77,1542, respectively. Total expenditures for Police/Fire Relief Oversight work for the six months ended June 30, 1987 and fiscal year 1988 were \$50,038 and \$70,414, respectively. Both of these accounts are included in the General Fund totals.

OFFICE OF THE STATE AUDITOR

II. CURRENT FINDING AND RECOMMENDATION

1. All employees need to accurately report hours worked during a payroll period.

According to Department of Finance policy 07:04:21, "each employee of the executive branch is required to report in writing the number of hours he worked each pay period. . . ." One employee who works on billable audits and is paid from the Revolving Fund, does not accurately report his hours worked during a pay period.

The State Auditor uses a timesheet that serves as both a billing document and a payroll support document. Auditors determine the number of hours that they work on a particular client and report these hours on the timesheet. The State Auditor then uses the total hours shown on the timesheet to bill the client.

The employee is compensated under the Managerial Plan authorized by Minn. Stat. Section 43A.18, Subd. 3, which establishes the compensation, terms, and conditions of employment for all classified and unclassified employees in positions identified as managerial. According to the Managerial Plan, "Managerial compensation is based upon the expectation that managers normally work at least 80 hours in the pay period. Managers shall be allowed flexibility in arranging their time in a manner which enables them to perform the responsibilities of their assignments." The OSA employee always reports 80 hours worked during the pay period. However, the first day of each pay period, the employee usually records an unrealistic number of hours worked. For example, for the six pay periods from April 12, 1988 to June 21, 1988, the employee consistently reported over 16 hours for the first Wednesday of the pay period. For the pay period ended May 10, 1988, the employee reported 21 hours on the first day. The employee only reported two hours worked for the previous Tuesday.

We were told the manager works a considerable number of hours over the normal 80 hour pay period. Managerial employees are normally not compensated for overtime. OSA staff explained that the manager adjusted his time sheet each pay period so his excess hours could be billed to clients. However, since the manager always reported 80 hours per pay period, we could not understand how additional hours were being billed. We were unable to verify his actual hours worked during the pay period. No other employee used this method for recording hours worked. We were unsure of what the employee gained by the method, because he was not eligible to be paid for overtime and was not accumulating an informal compensatory time balance.

The Office of the State Auditor needs to develop a system that would separate hours for billing purposes and hours for payroll purposes. For payroll purposes, a manager needs to only certify that the person worked at least 80 hours in the pay period and show any leave taken.

OFFICE OF THE STATE AUDITOR

The Office of the State Auditor could develop a new time sheet that shows the 80 hours for which the employee would be compensated and another section could indicate the billable hours to the auditee.

RECOMMENDATION

- The Office of the State Auditor should devise an acceptable method for reporting billable hours and actual hours worked.



ARNE H. CARLSON
STATE AUDITOR

STATE OF MINNESOTA

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525 PARK STREET
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296-2551

June 26, 1989

Mr. James R. Nobles
Legislative Auditor
Veterans Service Building
St. Paul, Minnesota 55155

Dear Mr. Nobles:

Your office recently audited the Office of the State Auditor and made one recommendation. The following is our response to your recommendation.

Our current time reporting document for billable audits does separate hours for payroll purposes and hours for billing purposes. This document accurately reported 80 hours worked or authorized leave taken and accurately reported the hours to be billed to individual clients between two payroll periods.

Currently, this manager is recording billing hours equal to actual daily work hours. This adjustment has a zero impact on prior and current billings and reconciles billing to payroll reporting. This billing and payroll reporting will be reviewed by our accounting department as the biweekly time reports are submitted.

Let me assure you that we have attempted to follow all of the State of Minnesota time reporting requirements. Our payroll and billing document has been approved by the department of finance. And, we will continue to monitor and review the process.

Sincerely,

A handwritten signature in cursive script, reading "Fred Boethin".

Frederic E. Boethin
Director of Audits

FEB:tg
/JN1