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**OFFICE OF THE STATE TREASURER  
MANAGEMENT LETTER  
FISCAL YEAR 1989**

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**JANUARY 1990**

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**Financial Audit Division  
Office of the Legislative Auditor  
State of Minnesota**



# SUMMARY

State of Minnesota  
Office of the Legislative Auditor  
Veterans Service Building • St. Paul, MN 55155  
612/296-4708

## OFFICE OF THE STATE TREASURER

### STATEWIDE AUDIT FISCAL YEAR 1989

Public Release Date: January 31, 1990

No. 90-5

#### OBJECTIVES:

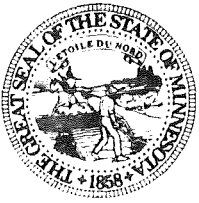
- REVIEW CERTAIN ACCOUNTING PROCEDURES AND CONTROLS: Cash and warrants payable, investments, and bonded debt. The audit scope was limited to those financial activities necessary to perform our audit of the State of Minnesota's financial statements.

#### CONCLUSIONS:

- We identified a control weakness in that bonded debt paying agents have not returned unclaimed funds to the state.

Contact the Financial Audit Division for additional information.  
(612) 296-1730





STATE OF MINNESOTA

**OFFICE OF THE LEGISLATIVE AUDITOR**

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

JAMES R. NOBLES, LEGISLATIVE AUDITOR

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The Honorable Michael A. McGrath  
State Treasurer  
303 State Administration Building  
50 Sherburne Avenue  
St. Paul, Minnesota 55155

Dear Mr. McGrath:

We have reviewed certain accounting procedures and controls for your department as part of our statewide audit of the State of Minnesota's fiscal year 1989 financial statements and material federal programs. The scope of our work has been limited to those aspects of your department which have material impact on any of the state's various funds and account groups shown on the financial statements, including your centralized responsibilities for:

- cash and warrants payable;
- investments; and
- bonded debt.

We emphasize that this has not been a complete financial and compliance audit of all programs within your department.

Finding #1 from the fiscal year 1988 audit has been resolved. The current recommendation included in this letter is presented to assist you in improving accounting procedures and controls. We will review your progress on resolving this finding during our audit next year.

1. Unclaimed funds for payment of bonded debt have not been returned to the state.

The State of Minnesota has contracted with various banks to serve as paying agents for principal and interest on general obligation bonds issued by the state. On the payment dates specified, the State Treasurer transfers the total amount due for debt service to the paying agents. These banks make the required payments to the bondholders, based on records of ownership for registered bonds or on the submission of bonds and coupons for bearer bonds. The paying agents have not returned any unclaimed funds to the state as required in their contracts.

At any point in time, the paying agents may hold cash for unredeemed bearer bonds and coupons, and for registered bonds where the owner has not been located. The paying agent contracts provide that any funds remaining in their possession after five years from the maturity date of the bonds should be returned to the state.

The Honorable Michael A. McGrath  
State Treasurer  
Page 2

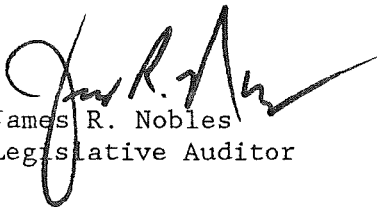
In order to determine the unexpended cash balances and verify the information submitted by paying agents, the State Treasurer maintains detailed ledgers for bearer bonds. Each ledger shows transfers to the paying agents and the subsequent bond and coupon redemptions against those funds, as reported monthly by the paying agents. The State Treasurer has not requested that unclaimed bond and interest deposits held by the paying agents be returned to the state. As of June 30, 1989, unclaimed redemptions from June 30, 1984 and prior dates totalled \$29,760.

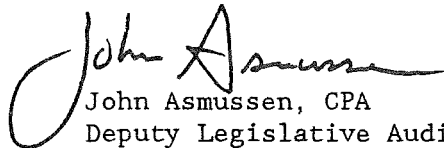
#### RECOMMENDATION

- The State Treasurer should request that the unclaimed redemptions be returned by the paying agents. A detailed record should be maintained of all returned funds. The State Treasurer should work with the Department of Finance to provide proper accounting for these funds and to establish a process for payment of refunds if bondholders are subsequently located.

Thank you for the cooperation extended our staff during this audit.

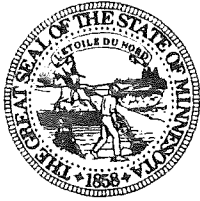
Sincerely,

  
James R. Nobles  
Legislative Auditor

  
John Asmussen, CPA  
Deputy Legislative Auditor

END OF FIELDWORK: December 8, 1989

REPORT SIGNED ON: January 19, 1990



STATE OF MINNESOTA  
OFFICE OF THE STATE TREASURER

303 State Administration Building  
50 Sherburne Avenue  
Saint Paul, Minnesota 55155



MICHAEL A. McGRATH  
Treasurer

(612) 296-7091  
Fax (612) 296-8615

January 11, 1990

James R. Nobles, Legislative Auditor  
John Asmussen, Deputy Legislative Auditor  
Veterans Service Building  
St. Paul, Minnesota 55155

Dear Mr. Nobles and Mr. Asmussen,

Thank you for the opportunity to respond to the comments and recommendations in your management letter from the period July 1, 1988 to June 30, 1989. Our response is attached.

We appreciate your assistance and recommendations. Your staff conducted itself in a very responsible and professional manner during the entire process.

As always, we are available for further discussions to improve the operation of the State Treasurer's office. I believe the actions already taken and planned for the future will continue the progress toward our goal of returning the office to its proper vital role instate government.

Sincerely,

A handwritten signature in cursive script, appearing to read "Michael A. McGrath".

Michael A. McGrath  
Treasurer  
State of Minnesota

MAM/ccj

STATE TREASURER'S OFFICE  
RESPONSE  
TO LEGISLATIVE AUDITOR RECOMMENDATIONS  
FOR  
JULY 1, 1988 TO JUNE 30, 1989

RECOMMENDATION

The State Treasurer should request that the unclaimed redemptions be returned by the paying agents. A detailed record should be maintained of all returned funds. The State Treasurer should work with the Department of Finance to provide proper accounting for these funds and to establish a process for payment of refunds if bondholders are subsequently located.

RESPONSE

First, we would like to note some background information. The Contract in question which requires that "funds remaining in the paying agent's possession after five years beyond maturity date be returned to the state" is administered by the Department of Finance. The reason for this clause in the contract is to comply with Unclaimed Property statutes of Minnesota.

The Treasurer's office will contact the paying agent banks and request the funds in question be returned to the State of Minnesota, Division of Unclaimed Property in the Department of Commerce. We will work with the Unclaimed Property Division to provide the information necessary to pay bondholders if payment is requested.