

OFFICE OF THE STATE AUDITOR

FINANCIAL AUDIT

FOR THE PERIOD JULY 1, 1988 - DECEMBER 31, 1990

JULY 1991

Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

91-39

OFFICE OF THE STATE AUDITOR
FINANCIAL AUDIT
FOR THE PERIOD JULY 1, 1988 - DECEMBER 31, 1990

Public Release Date: July 3, 1991

No. 91-39

OBJECTIVES:

- EVALUATE INTERNAL CONTROL STRUCTURE: cash receipts, payroll, travel, and budgeting office operations.
- TEST COMPLIANCE WITH CERTAIN FINANCE-RELATED LEGAL PROVISIONS.

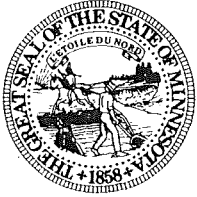
CONCLUSIONS:

We found one area where the internal control structure needed improvement:

- The State Auditor needs to strengthen controls over billings and collection.

We found that, except for the issues discussed in a special review of employee expense reimbursements issued on March 8, 1991, the Office of the State Auditor complied with finance-related legal provisions.

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

Representative Ann Rest, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. Mark Dayton, State Auditor
Office of the State Auditor

Audit Scope

We have conducted a financial related audit of the Office of the State Auditor for the period July 1, 1988 to December 31, 1990. Our audit was limited to only that portion of the State of Minnesota financial activities attributable to the transactions of the Office of the State Auditor as discussed in the Introduction. We have also made a study and evaluation of the internal control structure of the Office of the State Auditor in effect at December 31, 1990.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial activities attributable to the transactions of the Office of the State Auditor are free of material misstatements.

As part of our study and evaluation of the internal control structure, we performed tests of the Office of the State Auditor's compliance with certain provisions of laws, regulations, contracts, and grants. However, our objective was not to provide an opinion on overall compliance with such provisions.

Management Responsibilities

The management of the Office of the State Auditor is responsible for establishing and maintaining an internal control structure. This responsibility includes compliance with applicable laws, regulations, contracts, and grants. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that:

- assets are safeguarded against loss from unauthorized use or disposition;
- transactions are executed in accordance with applicable legal and regulatory provisions, as well as management's authorization; and

- transactions are recorded properly on the statewide accounting system in accordance with Department of Finance policies and procedures.

Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

Internal Control Structure

For purposes of this report, we have classified the significant internal control structure policies and procedures in the following categories:

- cash receipts,
- payroll
- travel, and
- budgeting office operations.

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

Conclusions

Our study and evaluation disclosed the conditions discussed in finding 1 involving the internal control structure of the Office of the State Auditor. We consider these conditions to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data.

A material weakness is a reportable condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial activities being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We do not believe the reportable condition described in finding 1 is a material weakness.

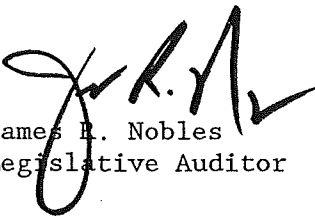
We also noted additional matters involving the internal control structure and its operation that we reported to the management of the Office of the State Auditor at the exit conference held on March 15, 1991.

Representative Ann Rest, Chair
Members of the Legislative Audit Commission
Mr. Mark Dayton, State Auditor
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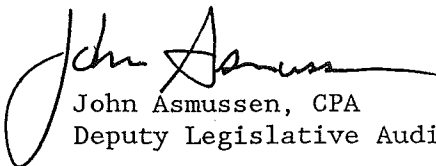
The results of our tests indicate that, except for the issues discussed in a special review of employee expense reimbursements issued on March 8, 1991, with respect to the items tested, the Office of the State Auditor complied, in all material respects, with the provisions referred to in the audit scope paragraphs. With respect to items not tested, nothing came to our attention that caused us to believe that the Office of the State Auditor had not complied, in all material respects, with those provisions.

This report is intended for the information of the Legislative Audit Commission and management of the Office of the State Auditor. This restriction is not intended to limit the distribution of this report, which was released as a public document on July 3, 1991.

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 13, 1991

REPORT SIGNED ON: June 28, 1991

OFFICE OF THE STATE AUDITOR

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AUDIT PARTICIPATION

The following members of the Office of the Legislative Auditor prepared this report:

John Asmussen, CPA	Deputy Legislative Auditor
Warren Bartz, CPA	Audit Manager
Jean Mellett, CPA	Auditor-in-Charge
Mark Johnson	Staff Auditor

EXIT CONFERENCE

The findings and recommendations in this report were discussed with the following staff of the State Auditor's Office on March 15, 1991:

Mark Dayton	State Auditor
Lisa Rotenberg	Deputy State Auditor
Terence Pohlkamp	Assistant State Auditor
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. Arne Carlson served as State Auditor during the audit period. Mark Dayton was elected for the term beginning January 7, 1991.

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 audit activities of the office now are fully funded by General Fund appropriations. However, the OSA collects fees from client billings which are deposited as nondedicated receipts in the General Fund. Receipts totalled \$4,470,695 in fiscal year 1989 and \$4,332,693 in fiscal year 1990. Receipts collected in the six months ended December 31, 1990 totalled \$2,258,109.

The OSA also receives appropriations to fund the constitutional duties of the State Auditor, the Governmental Information Division, the Single Audit work, and the Police/Fire Relief Oversight work. Appropriations for fiscal year 1989, fiscal year 1990 and fiscal year 1991 were \$547,100, \$576,000, and \$563,527, respectively. The majority of OSA expenditures are for personnel costs. Shown below is a summary of expenditures for the period July 1, 1988 to December 31, 1990.

Category	Six Months Ended December 31, 1990	Year Ended June 30	
		1990	1989
Payroll and Benefits	\$2,353,849	\$4,359,463	\$4,227,154
Travel Expenses	155,060	254,087	260,663
Other Expenditures	<u>424,234</u>	<u>480,814</u>	<u>590,451</u>
Total Expenditures	<u>\$2,933,143</u>	<u>\$5,094,364</u>	<u>\$5,078,268</u>

Source: *Manager's Financial Reports*, as of September 1, 1990 and January 1, 1991, adjusted to include payroll through December 31, 1991.

OFFICE OF THE STATE AUDITOR

II. CURRENT FINDINGS AND RECOMMENDATIONS

1. The Office of the State Auditor needs to strengthen controls over billings and collections.

Controls over billings and collections are inadequate. Rules governing the timing of billings are unwritten. Void billings procedures do not require supervisory approval or explanation of voids. The Office of the State Auditor has not followed up on some delinquent accounts or collected interest on accounts, as required by state law. The OSA needs to review billing procedures to ensure that they are adequate.

The Office of the State Auditor does not have written procedures governing the timing of billings. Current procedures are comprised of informal rules which have evolved over time. These informal rules are not comprehensive or supported by criteria and have resulted in delayed billings in certain instances. For example, the State Auditor did not bill the Department of Natural Resources for county game and fish fund audits until OSA office staff received a balance sheet. In practice, The OSA did not bill auditees:

- for workpaper review time until three separate reviews were completed,
- until audit costs exceed \$250,
- if an audit director requests a hold on the billing.

The OSA needs to develop a written billing policy to ensure that billing procedures are adequately authorized and consistent.

The OSA needs to strengthen collections procedures. Accounting staff did not routinely send out second notices; rather, audit directors had to initiate a second notice. The OSA also has not followed up on some delinquent accounts. In October 1989, the OSA certified for tax levy two claims totalling \$12,458 against the City of Duluth which had been outstanding since June 30, 1988 and July 28, 1988. The claims still are not fully paid. The OSA did not investigate using additional collection procedures.

Controls over void billings need strengthening. Supervisors do not approve void billings, no explanation of void billings is written, and void billings are not referenced to rebillings. Void billings generally result from computer printing mistakes, wrong auditee information or charges made to the wrong fiscal year. The OSA needs to ensure that void billings are reviewed and properly explained. The risk remains that legitimate billings could be voided without detection.

OFFICE OF THE STATE AUDITOR

The OSA did not charge interest on delinquent claims as required by Minn. Stat. Sections 6.57. The OSA did not charge interest on claims which were 90 days past due on July 1 if the auditee paid the claim before October 1. Minn. Stat. Section 6.57 states:

On July first, of each year, the state auditor shall certify all uncollected claims...which have remained unpaid for a period of three months from the date of such claim. The auditor shall notify the clerk,...if the same is not paid, with interest at the rate of six percent per annum from the date of the claim, within 90 days, the full amount thereof will be certified to the county auditor...for collection by special tax levy...

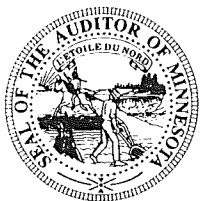
The OSA has not charged the Department of Natural Resources interest on past due claims. Minn. Stat. Section 16A.124, Subdivision 5 requires state agencies to pay interest

"when the agency has not paid the billing within 30 days following receipt of the invoice, merchandise, or service whichever is later...Before any interest payment is made, the vendor must invoice the state agency for such interest."

The Department of Natural Resources routinely pays claims late. For example, on June 30, 1989, the Department of Natural Resources paid two claims totalling \$23,568 which had been outstanding since January 13, 1989 and February 2, 1989.

RECOMMENDATIONS

- The OSA should review informal billing rules, and initiate written billing and collections procedures.
- Supervisors should approve void billings. Void billings should be explained and referenced to a rebilling, if appropriate.
- The OSA should strengthen its efforts to collect delinquent accounts, including charging interest when possible.



MARK B. DAYTON
STATE AUDITOR

STATE OF MINNESOTA

OFFICE OF THE STATE AUDITOR
SUITE 400
525 PARK STREET
SAINT PAUL 55103

296-2551

June 25, 1991

Mr. James R. Nobles
Legislative Auditor
Veterans Service Building
20 West Twelfth Street
Saint Paul, MN 55155

Dear Legislative Auditor Nobles:

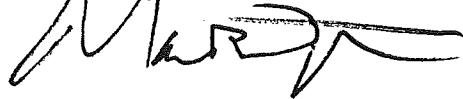
This letter is in response to your audit report for the period July 1, 1988 to December 31, 1990. Although the period covered in the report was under a different administration, we believe your comments and recommendations are valid and should be implemented. Following is a brief description of actions taken to date and a timetable for implementation of the remaining recommendations:

- 1) **Legislative Auditor's recommendation:** The OSA should review informal billing rules, and initiate written billing and collections procedures.
Office of State Auditor response: We are currently in the process of reviewing the informal billing rules. We intend to initiate written billing and collection procedures within 6 months. Terry Pohlkamp, Assistant State Auditor for Finance and Administration, will be in charge of this project.
- 2) **Legislative Auditor's recommendation:** Supervisors should approve void billings. Void billings should be explained and referenced to a rebilling, if appropriate.
Office of State Auditor response: We have implemented this recommendation.
- 3) **Legislative Auditor's recommendation:** The OSA should strengthen its efforts to collect delinquent accounts, including charging interest when possible.
Office of State Auditor's response: We have strengthened our efforts to collect delinquent accounts. Late notices are sent each month. Either the Deputy State Auditor or the Crew Chief assigned to the audit is attempting to contact delinquent accounts on a regular basis. In addition, a letter was mailed to all delinquent accounts informing them of the intention to charge interest and to begin the certification process in accordance to Minn. Stat. Section 6.57.
The Department of Natural Resources does not have an outstanding balance at this time. However, we intend to charge interest if their bills are overdue.

James R. Nobles
June 25, 1991
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I believe this addresses all of the concerns raised by your report. Thank you for your recommendations. If you have any questions regarding implementation, please do not hesitate to call me.

Sincerely,

A handwritten signature in black ink, appearing to read "Mark B. Dayton", with a long horizontal flourish extending to the right.

Mark B. Dayton
State Auditor

MBD:RD:bjs