

**DEPARTMENT OF FINANCE
FINANCIAL AUDIT
FOR THE YEAR ENDED JUNE 30, 1991**

FEBRUARY 1992

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

SUMMARY

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

DEPARTMENT OF FINANCE

FINANCIAL AUDIT FOR THE YEAR ENDED JUNE 30, 1991

Public Release Date: February 27, 1992

No. 92-13

OBJECTIVES:

- EVALUATE INTERNAL CONTROL STRUCTURE: payroll, master lease program, rural finance and beginning farmer loan programs, energy loan programs, statewide indirect costs, University of Minnesota grants, Regional Transit Board grants, State History Center grants, Permanent School Fund sale proceeds, and State Compensation Insurance Fund loan.
- TEST COMPLIANCE WITH CERTAIN FINANCE-RELATED LEGAL PROVISIONS.

CONCLUSIONS:

We found the internal control structure to be effective.

We found no departures from finance-related legal provisions.

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



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

CENTENNIAL 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. John Gunyou, Commissioner
Department of Finance

Audit Scope

We have conducted a financial related audit of the Department of Finance as of and for the year ended June 30, 1991. Our audit was limited to only that portion of the State of Minnesota financial activities attributable to the transactions of the Department of Finance, as discussed in the Background Section. We have also made a study and evaluation of the internal control structure of the Department of Finance in effect during June 1991.

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 Department of Finance are free of material misstatements.

As part of our study and evaluation of the internal control structure, we performed tests of the Department of Finance'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 Department of Finance 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 the 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:

- payroll,
- master lease program,
- rural finance and beginning farmer loan programs,
- energy loan program,
- statewide indirect costs,
- University of Minnesota grants,
- Regional Transit Board grants,
- State History Center grants,
- Permanent School Fund sale proceeds, and
- State Compensation Insurance Fund loan.

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

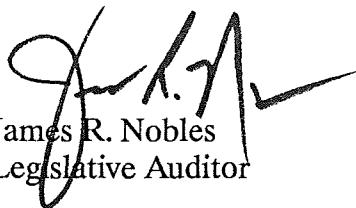
In our opinion, the internal control structure of the Department of Finance in effect during June 1991, taken as a whole, was sufficient to meet the objectives stated above insofar as those objectives pertain to the prevention or detection of errors or irregularities in amounts that would be material in relation to the financial activities attributable to transactions of the Department of Finance.

Representative Ann Rest, Chair
Members of the Legislative Audit Commission
Mr. John Gunyou, Commissioner
Page 3

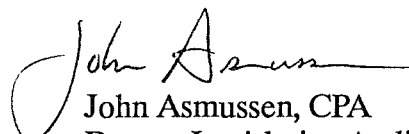
The results of our tests indicate that, with respect to the items tested, the Department of Finance complied, in all material respects, with the provisions referred to in the audit scope paragraphs. With respect to items not tested, nothing came to our attention that caused us to believe that the Department of Finance 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 Department of Finance. This restriction is not intended to limit the distribution of this report, which was released as a public document on February 27, 1992.

We would like to thank the Department of Finance staff for their cooperation during this audit.



James R. Nobles
Legislative Auditor



John Asmussen, CPA
Deputy Legislative Auditor

End of Fieldwork: January 3, 1992

Report Signed On: February 21, 1992

Table of Contents

	Page
Background	1

Audit Participation

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

John Asmussen, CPA	Deputy Legislative Auditor
Claudia Gudvangen, CPA	Audit Manager
Lori Pellicci, CPA	Auditor-In-Charge
Marla Conroy, CPA	Staff Auditor
Ron Mavetz, CPA	Staff Auditor
Jenny Duong	Intern

Department of Finance

Background

The Department of Finance manages the accounting and financial operation, budgetary, and debt management activities of the state. In addition, the department forecasts revenues, controls expenditures in accordance with legal provisions, and reports various financial information to the Governor, Legislature, and the public. It also assists state agencies in accomplishing their missions by providing financial services, consultation, and information. The department operates under the direction of the commissioner who is appointed by the Governor. Peter Hutchinson served as commissioner until January 6, 1991. John Gunyou was appointed commissioner effective January 7, 1991.

The department operations are primarily financed through General Fund appropriations. The following schedule shows total departmental operating expenditures, including encumbrances, for fiscal year 1991:

Payroll	\$5,569,572
Other Administrative Expenditures	<u>3,613,733</u>
Total	<u>\$9,183,305</u>

Source: Statewide Accounting System Manager's Financial Report as of August 31, 1991.

In addition, the department has administrative responsibility for various grant, loan, and other programs, with the following financial activity for fiscal year 1991:

Revenues and other receipts:

Statewide indirect cost recoveries	\$11,093,583
Master lease debt repayments and interest	8,365,714
Permanent School Fund sale proceeds	4,180,300
Energy loan repayments and interest	3,183,440
Federal land payment grants	2,119,268
Rural finance and beginning farmer loan repayments and interest	737,290
State Compensation Fund loan repayments and interest	591,570
Other programs	<u>16,719,481</u>
Total	<u>\$46,990,646</u>

Department of Finance

Expenditures and other disbursements:

University of Minnesota grants	\$473,142,359
State History Center grants	29,000,997
Regional Transit Board grants	22,176,000
Master lease debt service	8,441,473
Rural finance and beginning farmer loans	1,703,607
Energy loans	1,137,616
Federal land payment grants	2,119,268
Other programs	<u>32,922,421</u>

Total	<u>\$570,643,741</u>
-------	----------------------

Source: State of Minnesota Fiscal Year 1991 Comprehensive Annual Financial Report; Statewide Accounting System Estimated Actual Receipts; and Manager's Financial Reports as of August 31, 1991.

The Department of Finance, in conjunction with other state agencies, also provides centralized statewide controls in the following areas:

- statewide accounting system;
- cash receipts and disbursements;
- payroll transaction processing;
- investment transaction accounting and investment income allocation;
- general obligation bonded debt issuances and debt service expenditures; and
- budgets and appropriations.

We include conclusions from our review of these centralized systems in our report of internal control for the state as a whole, which is published in the State of Minnesota's Financial and Compliance Report on the Federally Assisted Programs.