

**DEPARTMENT OF COMMERCE  
FINANCIAL EXAMINATIONS DIVISION  
FINANCIAL AUDIT  
FOR THE THREE YEARS ENDED JUNE 30, 1991**

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**JUNE 1992**

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

**92-34**



# **DEPARTMENT OF COMMERCE FINANCIAL EXAMINATIONS DIVISION**

## **FINANCIAL AUDIT FOR THE THREE YEARS ENDED JUNE 30, 1991**

Public Release Date: June 11, 1992

No.92-34

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### **OBJECTIVES:**

- **EVALUATE INTERNAL CONTROL STRUCTURE:** Receipts for bank examinations, credit union examinations, bank assessments, certificates of life insurance policy valuations, insurance company licenses and insurance company examinations; and payroll.
- **TEST COMPLIANCE WITH CERTAIN FINANCE-RELATED LEGAL PROVISIONS.**

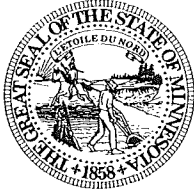
### **CONCLUSIONS:**

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**

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JAMES R. NOBLES, LEGISLATIVE AUDITOR

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Representative Ann Rest, Chair  
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. Bert McKasy, Commissioner  
Department of Commerce

## **Audit Scope**

We have conducted a financial related audit of the Department of Commerce, Financial Examinations Division as of and for the three years 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 Commerce, Financial Examinations Division. We have also made a study and evaluation of the internal control structure of the Department of Commerce, Financial Examinations Division.

The Department of Commerce, Financial Examinations Division is responsible for regulating commercial banks, trust companies, face amount certificate companies, credit unions, and life and casualty insurance companies. The division accomplishes this through on-site examinations and investigations, and licensing qualified individuals, corporations, and members to conduct regulated activities. The division also collects and analyzes financial data and reports from financial institutions and licensees doing business in the state. Revenue for the division totalled about \$4,867,400 in fiscal year 1991 while expenditures totalled about \$4,477,500. Payroll was about \$3,775,500 of total expenditures.

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 Commerce Financial Examinations Division are free of material misstatements.

As part of our study and evaluation of the internal control structure, we performed tests of the Department of Commerce, Financial Examinations Division'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 Commerce 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:

### **Financial Examination Division:**

- Payroll
- Receipts:
  - Bank Examinations
  - Credit Union Examinations
  - Bank Assessments
  - Certificates of Life Insurance Policy Valuations
  - Insurance Company Licenses
  - Insurance Company Examinations

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.

## Conclusion

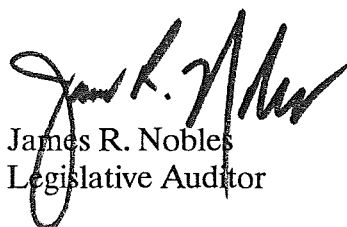
In our opinion, the internal control structure of the Department of Commerce, Financial Examinations Division, in effect at January 1992, taken as a whole, was sufficient to meet the objectives stated above insofar as those objectives pertain to the prevention or detection of errors or irregularities in amounts that would be material in relation to the financial activities attributable to transactions of the Department of Commerce, Financial Examinations Division.

However, we noted certain matters involving the internal control structure and its operation that we reported to the management of The Department of Commerce in a meeting held on April 23, 1992.

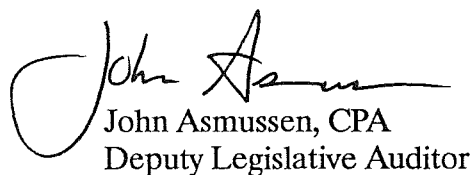
The results of our tests indicate that, with respect to the items tested, the Department of Commerce, Financial Examinations Division complied, in all material respects, with the provisions referred to in the audit scope paragraphs. With respect to items not tested, nothing came to our attention that caused us to believe that the Department of Commerce, Financial Examinations Division 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 Commerce. This restriction is not intended to limit the distribution of this report, which was released as a public document on June 11, 1992.

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



James R. Nobles  
Legislative Auditor



John Asmussen, CPA  
Deputy Legislative Auditor

End of Fieldwork: March 26, 1992

Report Signed On: June 8, 1992