

**STATE BOARD OF ABSTRACTORS
FINANCIAL AUDIT
FOR THE THREE YEARS ENDED JUNE 30, 1991**

JULY 1992

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

92-49

Centennial Office Building, Saint Paul, MN 55155 ● 612/296-4708

STATE BOARD OF ABSTRACTORS

FINANCIAL AUDIT JULY 1, 1988 - JUNE 30, 1991

Public Release Date: July 31, 1992

No. 92-49

OBJECTIVES:

- OBTAIN AN UNDERSTANDING OF THE INTERNAL CONTROL STRUCTURE: license fees and examination fees.
- TEST COMPLIANCE WITH CERTAIN FINANCE-RELATED LEGAL PROVISIONS.

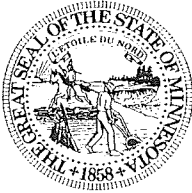
CONCLUSIONS:

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

- Controls over the issuance of licenses need improvement. The board should ensure that licenses are only issued to applicants who have paid the required fees.

We found no departures from finance-related legal compliance.

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. Jeffrey Danielson, Chair
State Board of Abstracters

Ms. Mary Bakken, Executive Secretary
State Board of Abstracters

Audit Scope

We have conducted a financial related audit of the State Board of Abstracters 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 State Board of Abstracters as discussed in the Introduction.

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 transaction of the State Board of Abstracters are free of material misstatements.

We performed tests of the State Board of Abstracters' transactions to obtain reasonable assurance that the board had, in all material respects, administered its operations in compliance with applicable laws and regulations. However, our objective was not to provide an opinion on overall compliance with such provisions.

Management Responsibilities

The management of the State Board of Abstracters 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;

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- 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:

- license fees, and
- examination fees.

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures. We will not express an opinion on the internal control structure taken as a whole due to the limited staff size of the board.

Conclusions

Our audit was conducted only for the limited purpose described in the Audit Scope section of this letter and would not necessarily disclose all material weaknesses in the board's system of internal control. We do not express an opinion on the system of internal control of the State Board of Abstracters taken as a whole. However, our audit disclosed the issue discussed in section II, finding 1, which we believe is important and should be addressed by management.

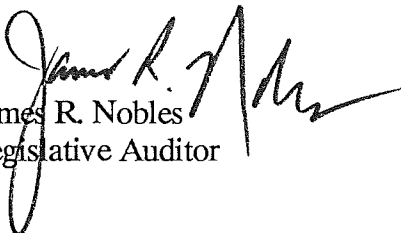
The results of our tests indicated that, with respect to the items tested, the State Board of Abstracters complied, in all material respects, with the provisions referred to in the audit scope paragraphs. With respect to items not tested, nothing came to our attention that caused us to believe that the State Board of Abstracters had not complied, in all material respects, with those provisions.

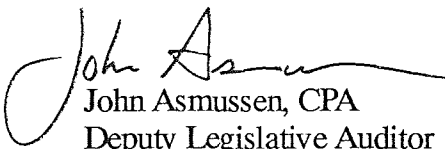
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We also noted other matters involving the activities of the State Board of Abstracters that we reported to its management at the exit conference held on April 3, 1992.

The State Board of Abstracters declined to submit a written response to our audit finding. We had provided the executive secretary with an opportunity to provide a written response. Despite our repeated efforts to obtain a response and after an extended time period, the executive secretary failed to reply. However, we do not believe the board wishes to contest the audit finding. Thus, we decided to publish this report without an agency response.

This report is intended for the information of the Legislative Audit Commission and management of the State Board of Abstracters. This restriction is not intended to limit the distribution of this report, which was released as a public document on July 31, 1992.


James R. Nobles
Legislative Auditor


John Asmussen, CPA
Deputy Legislative Auditor

End of Fieldwork: March 26, 1992

Report Signed On: July 28, 1992

State Board of Abstracters

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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
Margaret Jenniges, CPA	Audit Manager
Tony Toscano	Auditor-in-Charge
Marla Conroy, CPA	Auditor

Exit Conference

The finding and recommendation in this report were discussed with the following staff from the State Board of Abstracters and the Department of Commerce on April 3, 1992:

Mary Bakken	Executive Secretary
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State Board of Abstracters

Introduction

The State Board of Abstracters was established pursuant to Minn. Stat. Sections 386.63. The board consists of seven members appointed by the Governor. The board licenses and renews persons, firms or corporations in the business of making abstracts of title and issuing certificates showing ownership of, interest in, or debts against any lands in the state of Minnesota. The Board of Abstracters maintains complete records on all licensed abstracters to be assured that competent persons are preparing and certifying Abstracts of Title. The board examines all prospective licensees through a process of written and oral examinations.

The board finances its activities through a general appropriation as well as examination and certificate fees. The board administers examinations once a year. The examination fee is \$25. The application fee for new licensure as an abstracter is \$50 per county. The application for renewal of licensure is \$40 per county.

The summary below shows receipts of the board for the year ended June 30, 1991.

Receipts:	
Certification fees	\$22,480
Examination fees	<u>1,150</u>
Total Receipts	<u>\$23,630</u>

Source: Statewide Accounting System Estimated and Actual Receipts Report as of August closing of fiscal year.

Current Finding and Recommendation

1. The controls over the issuance of licenses are weak.

The Board of Abstracters does not provide adequate control over the issuance of licenses. The board does not confirm the number of licenses issued to the total amount of fees collected. The Department of Commerce maintains and issues the licenses. The board does not have any assurance that the Department of Commerce is only issuing licenses to eligible applicants who have paid the required fee. A strong system of internal control requires the capability of reconciling the licenses issued to the total receipts collected. The Department of Commerce does not keep an inventory of the licenses. Therefore, it cannot account for the number of licenses issued or on hand. The current system does not provide enough control over the certificates to prevent or detect misuse.

Recommendation

- *The board should ensure that licenses are only issued to applicants who have paid the required fees.*