

**OFFICE OF THE STATE TREASURER
FINANCIAL AUDIT
FOR THE YEAR ENDED JUNE 30, 1992**

MARCH 1993

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

93-06



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

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

JAMES R. NOBLES, LEGISLATIVE AUDITOR

Senator Phil Riveness, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

The Honorable Michael A. McGrath
State Treasurer

Audit Scope

We have conducted a financial related audit of the Office of the State Treasurer as of and for the year ended June 30, 1992. 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 Treasurer. We have also made a study and evaluation of the internal control structure of the Office of the State Treasurer in effect as of June 1992.

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 Treasurer 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 Treasurer's compliance with certain provisions of laws and regulations. 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 Treasurer is responsible for establishing and maintaining an internal control structure. This responsibility includes compliance with applicable laws and regulations. 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:

- state depository receipts and cash control,
- warrant redemption and control,
- investment transaction processing,
- debt service expenditures,
- payroll expenditures, and
- travel expenditures.

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

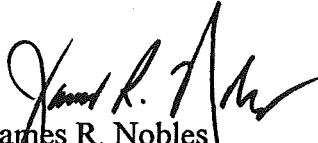
In our opinion, the internal control structure of the Office of the State Treasurer in effect at June 1992, taken as a whole, was sufficient to meet the objectives stated above insofar as those objectives pertain to the prevention or detection of errors or irregularities in amounts that would be material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

The results of our tests indicated that, with respect to the items tested, the Office of the State Treasurer 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 Treasurer had not complied, in all material respects, with those provisions.

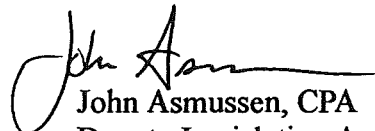
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This report is intended for the information of the Legislative Audit Commission and management of the Office of the State Treasurer. This restriction is not intended to limit the distribution of this report, which was released as a public document on March 4, 1993.

We thank the Office of the State Treasurer's staff for their cooperation during this audit.



James R. Nobles
Legislative Auditor



John Asmussen, CPA
Deputy Legislative Auditor

End of Fieldwork: December 1, 1992

Report Signed On: February 24, 1993

Office of the State Treasurer

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Audit Participation

The following staff of the Office of the Legislative Auditor participated in this report:

John Asmussen, CPA	Deputy Legislative Auditor
Claudia Gudvangen, CPA	Audit Manager
Judy Cammack, CPA	Auditor-in-Charge
Mary Annala, CPA	Staff Auditor
Janet Knox, CPA	Staff Auditor
Melissa Gamble	Staff Auditor

Office of the State Treasurer

Background

The State Treasurer is a constitutional officer elected by the citizens of the state to a four year term. Michael A. McGrath has served as State Treasurer since January 1987. As provided in the state constitution and applicable statutes, the State Treasurer serves as a member of the State Board of Investment and the Executive Council.

The Office of the State Treasurer accounts for monies deposited in the state treasury until lawfully disbursed or invested. The office maintains over 300 accounts in 200 banks throughout the state. Each day staff determine the amount of idle cash available for investment and certify that amount to the State Board of Investment. Treasurer's Office staff process and verify investment transactions as authorized by the State Board.

Another function of the office is to record and verify warrants redeemed from the state treasury. Agencies request the issuance of warrants to satisfy lawful obligations of the state. The Treasurer's Office verifies the validity of the warrants before transferring funds to the appropriate banks for payment. Over 5 million warrants were processed during fiscal year 1992.

As provided in the State Constitution, the State Treasurer maintains records and make payments for principal and interest on the state's general obligation bonds. At June 30, 1992, the outstanding general obligation bonds payable totalled \$1,634,330,000. Debt service payments on the bonds during fiscal year 1992 were \$246,126,635.

In addition to its general statewide financial management responsibilities, the office deposits various fees, fines and assessments received primarily from counties. During fiscal year 1992, receipts for these programs exceeded \$25 million.

The Office of the State Treasurer receives a direct appropriation from which it pays office operating costs. Fiscal year 1992 operating expenditures are shown below:

Payroll	\$531,017
Travel	15,130
Other operating expenditures	<u>121,399</u>
Total	<u>\$667,546</u>

Note: In addition to the expenditures shown above, the Office of the State Treasurer had \$432,421 encumbered in fiscal year 1992 for costs associated with the purchase and installation of a new computer system.

Source: Statewide Accounting System, Managers Financial Report as of September 5, 1992.