DEPARTMENT OF FINANCE

FINANCIAL AUDIT

FOR THE YEAR ENDED JUNE 30, 1992

MAY 1993

Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

93-21

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

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, 1992

Public Release Date: May 21, 1993 No. 93-21

OBJECTIVES:

- EVALUATE INTERNAL CONTROL STRUCTURE: Master Lease Program, statewide indirect costs, University of Minnesota grants, and State Historical Society grants.

- TEST COMPLIANCE WITH CERTAIN FINANCE-RELATED LEGAL PROVISIONS.

CONCLUSIONS:

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

- The department's process for monitoring and controlling negative account balances did not identify all problem accounts.

We found no departures from finance-related legal provisions

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

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 1992. 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 1992.

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

- statewide accounting system;
- budgets and appropriations;
- cash receipts and disbursements;
- payroll transaction processing;
- investment transaction accounting and investment income allocation; and
- general obligation bonded debt issuances and debt service 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 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 judgements 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 the purposes of this report, we have classified the significant internal control structure policies and procedures in the following categories:

- master lease program,
- statewide indirect costs,
- University of Minnesota grants, and
- State Historical Society construction grants.

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 condition discussed in finding #1 involving the internal control structure of the Department of Finance. We consider this condition to be a reportable condition 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 above is a material weakness.

We noted certain other matters involving the internal control structure and its operation that we reported to the management of the Department of Finance at the exit conference held on April 20, 1993.

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.

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

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 May 21, 1993.

We 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: December 10, 1992

Report Signed On: May 14, 1993

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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
Claudia Gudvangen, CPA	Audit Manager
Steve Pyan, CPA	Audit Supervisor
Beth Hammer, CPA	Staff Auditor
Mary Jacobson, CPA	Staff Auditor
Marla Conroy, CPA	Staff Auditor
Judy Hunt, CPA	Staff Auditor

Exit Conference

We discussed the findings and recommendations in this report with the following officials of the Department of Finance at an exit conference held on April 20, 1993:

David Doth	former Deputy Commissioner
Rosalie Greeman	Assistant Commissioner for Accounting Services
Roy Muscatello	Director, Statewide Accounting
Bruce Reddeman	Director, Budget Operations

Introduction

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, the 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. John Gunyou has served as commissioner since January 7, 1991.

Department operations are primarily financed through General Fund appropriations. For fiscal year 1992, operating expenditures, including encumbrances, totalled $8,352,154.

In addition, the department has administrative responsibility for various grant, loan, and other programs, with the following financial activity for fiscal year 1992:

Revenues and repayments:	
Statewide indirect cost recoveries	$ 9,494,928
Master lease debt repayments and interest	11,334,474
Other programs	25,637,046
Total	$ 46,466,448
Expenditures, loans and debt redemption:	
University of Minnesota grants	$482,847,256
State Historical Society construction grants	6,335,502
Master lease debt service	11,854,442
Other programs	35,937,168
Total	$536,974,368

Source: State of Minnesota Fiscal Year 1992 Comprehensive Annual Financial Report; Statewide Accounting System Estimated Actual Receipts and Manager's Financial Reports as of September 5, 1992.

Current Finding and Recommendation

1. The Department of Finance's process for monitoring and controlling negative account balances did not identify all problem accounts.

The Department of Finance did not appropriately monitor the unliquidated appropriation balances in the MAXIS automation project accounts administered by the Department of Human Services. At March 31, 1993, the fiscal year 1992 development account had a deficit balance of approximately $9 million. It is also anticipated that the fiscal year 1993 MAXIS operations account will be in deficit status. Although as of March 31, 1993, the account had a $2.7 million positive balance, DHS was holding approximately $5.6 million in unpaid Intertech billings for the period November, 1992 through March, 1993. The deficits resulted in part from the Department of Human Services' failure to accurately estimate federal revenue and reduce expenditures when funding was not available. In addition, the scope of the project was expanded beyond that anticipated in the original budget.

The Department of Human Services requested authority to operate the MAXIS account in a negative status during the middle of fiscal year 1992. The reason given for the request was to continue paying MAXIS obligations on a timely basis while waiting for an estimated $3 million in additional federal funding which was held up by congressional budget delays. The agreement with the Department of Finance provided that federal funds would be received by the state within 30 business days after payments had been made. The Department of Human Services has not yet received additional federal funding. As a result, it has requested a deficiency state appropriation of approximately $15 million to cover the fiscal year 1992 and 1993 deficits.

In order to comply with federal cash management and state prompt payment legislation, Finance will allow agencies to operate certain accounts in negative status. Based on a request from the administering agency, Finance will remove an edit in the statewide accounting system and thereby authorize payments to be made prior to receiving federal funds. Agencies must provide documentation explaining why the federal government will not advance funds. They must also specify when the federal funds will be received. The budget division approves the request before the general accounting section removes the edit. General accounting is responsible to monitor the unliquidated appropriation account balances to determine problem accounts, which are to be discussed with the executive budget officer.

The Department of Finance's review and follow-up on the MAXIS account was limited, and did not occur until after the end of fiscal year 1992. Budget division staff discussed the situation with Human Services staff, who continued to state that additional federal funding was forthcoming.

Department of Finance

We believe the Department of Finance should play a stronger role in monitoring these accounts to ensure that similar funding problems do not occur. The general accounting section receives daily statewide accounting system reports identifying the unliquidated appropriation balance for accounts which can operate in negative status. Some of the accounts, such as medical assistance and family support, have fairly significant ongoing negative balances. This is due to the timing for draws of federal funds. Amounts are requested from the federal government based on the estimated warrant clearing patterns for the payments. The amount of review and monitoring by Finance for these accounts could be more limited than for other accounts which do not have as evident a reason for the negative status.

Recommendation

- *The Department of Finance should strengthen its oversight of agency accounts which are allowed to operate in negative status. For federal programs, the department should require agencies to provide specific documentation of approved funding amounts. If it is determined that original estimates of federal or other dedicated funding will not be realized, the department should work with the agencies to reduce expenditures or obtain other funding prior to incurring additional obligations.*

State of Minnesota
Department of Finance

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May 11, 1993

To: John Asmussen
Deputy Legislative Auditor
Office of Legislative Auditor

Fr: John Gunyou JG
Commissioner

Re: Response to Legislative Audit Findings

Current Finding:

The Department of Finance's process for monitoring and controlling negative account balances did not identify all problem accounts.

Recommendation:

The Department of Finance should strengthen its oversight of agency accounts which are allowed to operate in negative status. For federal programs, the department should require agencies to provide specific documentation of approved funding amounts. If it is determined that original estimates of federal or other dedicated funding will not be realized, the department should work with agencies to reduce expenditures or obtain other funding prior to incurring additional obligations.

Response:

Our department has implemented procedures to strengthen oversight of agency accounts allowed to operate with a negative appropriation.

The new procedures include the following items:

- A revised cash flow authorization agreement form that allows agencies to operate in a negative appropriation status pending receipt of reimbursing funds. The new form requires agencies to notify - in writing - their Executive Budget Officer of any change in maximum negative balance or additional cash requirements when the dollar amount changes from that stated on the cash flow request form. In this notification, agencies must indicate what corrective action is being taken. A statement has been added to the cash flow agreement form directing agencies with cash flow problems to resolve by year end or charge excess expenditures to appropriate agency operating accounts.

- A negative balance appropriation monitoring report has been developed for review that indicates which agencies are having cash flow problems related to their negative cash balances. The report indicates which agencies have exceeded their cash flow request, agencies which are slow in getting cash reimbursement and agencies having trends of larger negative balances without corrective cash receipts.

- A monthly review meeting has been established within our agency between the General Accounting and Budget Operations units to review the new negative balance report. When appropriate, agencies will be required to supply a written explanation of noted problems. If problems are not remedied by agencies, further corrective actions can be pursued.

cc: Laura M. King
Rosalie Greeman
Claudia Gudvangen
Roy Muscatello
Team Leaders
Executive Budget Officers