

HARMFUL SUBSTANCE COMPENSATION BOARD

FINANCIAL AUDIT

FOR THE THREE YEARS ENDED JUNE 30, 1992

JUNE 1993

Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

93-29

SUMMARY

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

HARMFUL SUBSTANCE COMPENSATION BOARD

FINANCIAL AUDIT FOR THE THREE YEARS ENDED JUNE 30, 1992

Public Release Date: June 4, 1993

No. 93-29

OBJECTIVES:

- EVALUATE INTERNAL CONTROL STRUCTURE: Claims and awards, payroll, and interest on investments.
- TEST COMPLIANCE WITH CERTAIN FINANCE-RELATED LEGAL PROVISIONS.

CONCLUSIONS:

We did not express an opinion on the internal control structure taken as a whole, due to the limited size staff at the board office.

We found no departures from finance-related legal provisions.

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

FINANCIAL AUDIT DIVISION



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

Ms. Debra McBride, Chair
Harmful Substance Compensation Board

Ms. Jean Small-Johnson, Executive Director
Harmful Substance Compensation Board

Audit Scope

We have conducted a financial related audit of the Harmful Substance Compensation Board as of and for the three years 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 Harmful Substance Compensation Board, as discussed in the Background Information section. We have also made a study and evaluation of the internal control structure of the Harmful Substance Compensation Board in effect during February 1993.

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 Harmful Substance Compensation Board are free of material misstatements.

As part of our study and evaluation of the internal control structure, we performed tests of the Harmful Substance Compensation Board'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 Harmful Substance Compensation Board 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:

- claims and awards,
- payroll, and
- interest on investments.

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

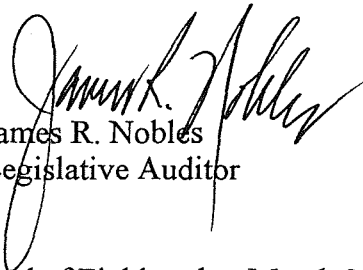
Our audit was conducted only for the limited purpose described in the Audit Scope section of this letter and would not necessarily disclose all material weaknesses in the board's system of internal control. We do not express an opinion on the system of internal control of the Harmful Substance Compensation Board taken as a whole.

However, we noted certain matters involving the internal control structure and its operation that we reported to the management of the Harmful Substance Compensation Board at the exit conference held on April 19, 1993.

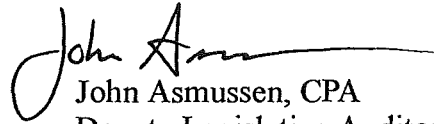
The results of our tests indicate that, with respect to the items tested, the Harmful Substance Compensation Board complied, in all material respects, with the provisions referred to in the audit scope paragraphs. With respect to items not tested, nothing came to our attention that caused us to believe that the Harmful Substance Compensation Board 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 Harmful Substance Compensation Board. This restriction is not intended to limit the distribution of this report, which was released as a public document on June 4, 1993.



James R. Nobles
Legislative Auditor



John Asmussen, CPA
Deputy Legislative Auditor

End of Fieldwork: March 26, 1993

Report Signed On: May 28, 1993

Harmful Substance Compensation Board

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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
Warren Bartz, CPA	Audit Manager
Jean Mellett, CPA	Auditor-in-Charge

Exit Conference

The finding and recommendation in this report was discussed with the following staff of the Harmful Substance Compensation Board on April 19, 1993:

Debra McBride	Chair
Jean Small-Johnson	Executive Director
Patricia Loveland	Secretary

Harmful Substance Compensation Board

Background Information

The legislature established the Harmful Substance Compensation Board in 1985. The governor, with the advice and consent of the senate, appoints five part-time members to serve on the board. The board must include a physician knowledgeable in toxicology, a member of the Minnesota bar, a health professional knowledgeable in the area of harmful substance injuries, and two members of the general public. The board's executive director is Jean Small-Johnson.

The Harmful Substance Compensation Board investigates claims of personal injury and property damage caused by releases of harmful substances into the environment and compensates victims for eligible losses resulting from the releases. Eligible losses include: replacement of contaminated drinking water, loss in selling price of a home due to the presence of contamination, loss caused by the inability to sell a home due to contamination, and loss due to chronic or progressive injuries, diseases or death caused by exposure to harmful substances. The maximum award may not exceed \$250,000.

The board receives operating funds from a harmful substance compensation account established in the Environmental Fund with an appropriation of \$2 million from the General Fund. In addition, the petroleum tank release cleanup account must reimburse the board for administrative costs and compensation related to petroleum release claims. The following schedule shows revenue and expenditures for fiscal years 1990, 1991, and 1992.

	Year Ended June 30		
	1990	1991	1992
Balance July 1	\$2,109,563	\$2,172,279	\$2,253,430
Revenue:			
Interest earned	<u>188,676</u>	<u>184,683</u>	<u>151,478</u>
Balance and Revenue	<u>\$2,298,239</u>	<u>\$2,356,962</u>	<u>\$2,404,908</u>
Expenditures:			
Payroll	\$ 35,546	\$ 36,696	\$ 40,357
Claims and awards	70,201	48,787	152,464
Other expenditures	<u>20,113</u>	<u>18,049</u>	<u>19,825</u>
Total Expenditures	<u>\$ 125,960</u>	<u>\$ 103,532</u>	<u>\$ 212,646</u>
Balance June 30	<u>\$2,172,279</u>	<u>\$2,253,430</u>	<u>\$2,192,262</u>

Note 1: Accounts receivable from the petroleum tank release cleanup account in the Environmental Fund totaled \$24,521 for the year ended June 30, 1992.

Source: Statewide Accounting System Manager's Financial Reports and Estimated Actual Receipts Reports as of August 31, 1991 and September 5, 1992.