

MINNESOTA TECHNOLOGY, INC.

FINANCIAL AUDIT

FOR THE PERIOD MARCH 1, 1991 - JUNE 30, 1992

SEPTEMBER 1993

Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

93-50

MINNESOTA TECHNOLOGY, INC.

FINANCIAL AUDIT FOR THE PERIOD MARCH 1, 1991 - JUNE 30, 1992

Public Release Date: September 16, 1993

No. 93-50

OBJECTIVES:

- **EVALUATE INTERNAL CONTROL STRUCTURE:** Appropriations, investment income, payroll, professional services, travel, and grants.
- **TEST COMPLIANCE WITH CERTAIN FINANCE-RELATED LEGAL PROVISIONS.**

CONCLUSIONS:

We found two areas where the internal control structure needed improvement:

- MTI did not have adequate controls over the processing of certain payroll and personnel transactions.
- MTI needs to improve controls over the bank account established for processing payroll transactions.

We found one departure from finance-related legal provisions:

- The corporation was not depositing all required receipts in the State Treasury.

Contact the Financial Audit Division for additional information.

296-1730

FINANCIAL AUDIT DIVISION



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

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JAMES R. NOBLES, LEGISLATIVE AUDITOR

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Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. John Yngve, Chair
Minnesota Technology, Inc. Board of Directors

Members of the Minnesota Technology, Inc. Board of Directors

Mr. Jacques Koppel, President
Minnesota Technology, Inc.

Audit Scope

We have conducted a financial related audit of Minnesota Technology, Inc. (MTI) as of and for the period March 1, 1991 through June 30, 1992. Section I provides a brief description of the corporation's activities and finances. Section II discusses current audit concerns.

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 Minnesota Technology, Inc. are free of material misstatements.

We performed tests of Minnesota Technology, Inc. transactions to obtain reasonable assurance that the corporation had, in all material respects, administered its programs 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 Minnesota Technology, Inc. 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 and the corporation's accounting system in accordance with applicable 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 into various categories. For all of the internal control structure categories listed below, 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:

- appropriations;
- investment income;
- payroll;
- professional services;
- travel; and
- grants.

We also considered whether Minnesota Technology's financial activities were conducted in a reasonable and prudent manner for a public entity. To achieve this objective, we reviewed selected financial policies and practices in effect during the audit period and as of the time of our fieldwork in March 1993.

Work of Other Auditors

As provided in Minn. Stat. Section 116O.14, the corporation contracted with a certified public accounting firm to conduct a financial audit of the corporation's financial activity for the fiscal year ended June 30, 1992. The firm issued an unqualified opinion on the corporation's financial statements for the period. We reviewed the auditor's workpapers and relied on their work, where appropriate, in determining the extent of our testing.

Conclusions

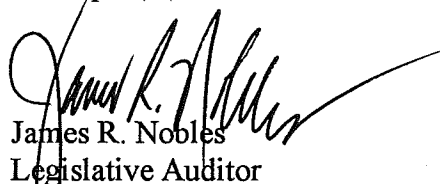
Our review disclosed the conditions discussed in findings 1 and 2 involving the internal control structure of Minnesota Technology, Inc. We consider these to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters 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 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 that the reportable conditions described above are material weaknesses.

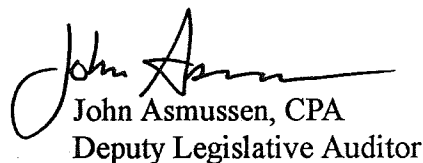
The results of our tests indicate that, except for finding 2, with respect to the items tested, Minnesota Technology complied, in all material respects, with the provisions referred to in the audit scope paragraphs. With respect to items not tested, nothing came to our attention that caused us to believe that Minnesota Technology had not complied, in all material respects, with those provisions.

We noted other matters involving the internal control structure and its operation that we reported to the management of Minnesota Technology, Inc. at the exit conference held on August 4, 1993.

This report is intended for the information of the Legislative Audit Commission and management of Minnesota Technology, Inc. This restriction is not intended to limit the distribution of this report, which was released as a public document on September 16, 1993.



James R. Nobles
Legislative Auditor



John Asmussen, CPA
Deputy Legislative Auditor

End of Fieldwork: April 16, 1993

Report Signed On: September 8, 1993

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Audit Participation

The following staff from the Office of the Legislative Auditor prepared this report:

John Asmussen, CPA	Deputy Legislative Auditor
Claudia Gudvangen, CPA	Audit Manager
Patrick Ryan	Auditor-In-Charge
Christina Weiss	Staff Auditor

Exit Conference

The findings and recommendations in this report were discussed with the following staff of Minnesota Technology, Inc. on August 4, 1993:

Jacques Koppel	President
Lowell Larson	Director
John Mielke	Controller

Minnesota Technology, Inc.

Introduction

Minnesota Technology, Inc. is a public, nonprofit corporation established to assist Minnesota industry in the use of modern techniques and technologies to compete more effectively in the global market place. Minnesota Technology, Inc. is under the direction of a 14 member board, established pursuant to Minn. Stat. Section 116O.03. The board is responsible for appointing a president who serves as the chief executive officer of the corporation. Jacques Koppel has served as president since September 1990. Minnesota Technology, Inc. has six offices located in the Twin Cities, Moorhead, Rochester, Redwood Falls, Virginia, and St. Cloud.

The following summary shows Minnesota Technology's financial activity for the year ended June 30, 1992:

<u>Revenues and Appropriations</u>	
State Appropriation	\$5,938,300
Interest Income	1,648,510
Other Income	<u>732,624</u>
Total Revenue and Appropriations	<u>\$8,319,434</u>
<u>Administrative Expenditures</u>	
Payroll	\$2,984,489
Professional Services	384,266
Travel	173,449
Other	<u>1,682,657</u>
Subtotal	<u>5,224,861</u>
<u>Grant Expenditures</u>	
Technology Research	666,052
Agriculture Pilot Grants	129,199
Minnesota Project Outreach	600,000
Business Innovation Centers	342,335
Natural Resource Research Institute	376,719
Agricultural Energy Savings Program	<u>595,872</u>
Subtotal	<u>2,710,177</u>
Total Expenditures	<u>\$7,935,038</u>

Source: Minnesota Technology, Inc. audited financial statements for the year ended June 30, 1992 and supporting accounting records.

Note: In addition to the above amounts, Minnesota Technology, Inc. disbursed \$5,693,000 in pass through appropriation grants to various organizations.

Minnesota Technology, Inc.'s governing statutes provide that the corporation is not subject to the laws governing a state agency except as otherwise provided. Employees of the corporation are not state employees, but are subject to certain provisions of Minn. Stat. Chapter 43A. Minnesota Technology, Inc. is not subject to the procedures and controls applicable to state agencies relating to purchasing, expense reimbursements, and other administrative expenditures.

Current Findings and Recommendations

1. MTI does not have adequate controls over the processing of certain payroll and personnel transactions.

Corporation controls over processing of payroll and personnel transactions need improvement. We identified the following problems in our review of this area:

- Sick leave payouts were not accurately calculated.
- Input of payroll transactions were not verified for accuracy.
- Supervisors did not consistently approve employee timesheets.

The corporation sick leave policy was modified on June 30, 1992. The new policy does not allow for accrual of sick leave, but instead allows for reasonable amounts of paid leave. The actual sick leave used is then monitored. The existing employee sick leave balances at June 30, 1992 were paid at 50 percent of the employee's balance at the pay rate in effect at that date. The payout totalled \$58,350 for 51 employees. Our review of these payouts found that four employees were overpaid a total of \$2,494 and two employees were underpaid a total of \$215. An independent review of the payout calculations could have detected these errors.

MTI's payroll is processed by an outside vendor. The corporation payroll clerk inputs hours worked from employee timesheets into a computer terminal and the data is transferred to the outside vendor. The computer system does not have edits that would warn of erroneous data entry. The data input is not verified to ensure keypunching accuracy. Without a verification of input, errors could occur and not be detected. There is a payroll register detailing the hours worked and salary payments, but the report is not reviewed against batch totals.

The accuracy of employee time reports cannot be determined because supervisors do not always review biweekly timesheets. Employees submit biweekly timesheets indicating the number and type of hours worked. Corporation policies provide that the timesheets should be approved by a supervisor. Incorrect payroll transactions could be processed without adequate review by supervisors.

Recommendations

- *The sick leave balance payout errors should be corrected. Overpayments should be collected and underpayments should be paid.*
- *Controls should be developed to ensure the accuracy of payroll data input onto the computer system.*
- *Supervisors should review and approve the hours reported on employee timesheets.*

Minnesota Technology, Inc.

2. MTI needs to improve controls over the bank account established for processing payroll transactions.

MTI's reconciliation of its checking account bank statement to supporting accounting records is not always done timely and completed accurately. Bank transactions are not correctly posted to accounting records. In addition, the corporation has not complied with Minn. Stat. Section 1160.12, which requires depositing all receipts into the corporation's special revenue account in the state treasury.

The corporation maintains the checking account for processing the biweekly payroll. MTI draws a warrant for the total payroll from the state treasury and deposits it in the bank account. Individual employee checks are then written on the bank account based on calculations by a private payroll service. MTI uses this account rather than the state payroll system. Our review of the account found that:

- Reconciliation of the bank account to the corporation's accounting records were not done from March 1991 through December 1991. In addition, reconciliations were not accurately completed. Interest earnings, service charges, and manual checks written on the account were not recorded promptly. The January 1992 reconciliation's beginning book balance was manipulated to make the balance match the bank statement. Some outstanding checks that had actually cleared were shown as outstanding.
- Non-payroll related receipts were deposited into the bank account.

Without a timely and accurate reconciliation process and review, erroneous transactions could occur and not be detected by corporation personnel. Accounting records should be reconciled on a timely basis to ensure prompt detection of errors. The entries posted to accounting records should accurately reflect all transactions. An inadequate system for recording checks makes it difficult to reconcile properly.

The corporation deposited non-payroll receipts totalling \$593,749 into the bank account during the period March 1991 through February 1993. At February 28, 1993, the account had a balance of \$208,860. These deposits were from forum fees, advertising, public relations, and a large transfer (\$183,553) from the St. Cloud Regional Office. While the money was used for payroll expenditures, Minn. Stat. Section 1160.12 requires that receipts collected by the corporation be deposited into the special revenue account in the state treasury.

Recommendations

- *The bank account should be accurately reconciled on a monthly basis. All transactions should be posted to accounting records promptly.*

Minnesota Technology, Inc.

Recommendations (Continued)

- *A person independent of posting bank account entries to accounting records should review the transactions for accuracy and validity. Supporting documentation should be retained.*
- *The corporation should deposit all non-payroll receipts, including the account balance of \$208,860, into the state treasury as required by Minn. Stat. 116O.12.*



September 2, 1993

Office of the Legislative Auditor
Mr. James Nobles, Legislative Auditor
First Floor, Centennial Office Building
658 Cedar Street
Saint Paul, MN 55155

Dear Mr. Nobles:

Thank you for the opportunity to respond to your findings and recommendations related to your audit of Minnesota Technology for the period of March 1, 1991 through June 30, 1992.

Finding No. 1

- We will pay the individuals that were underpaid and seek reimbursement from those individuals that were overpaid.
- Payroll input has always been reviewed by the payroll processor and to date, there has not been an error. Your comment relates to using batch control totals to verify the number of hours input is correct. We will implement your suggestion in order to add more control over the input.
- All time sheets are currently reviewed and approved by supervisory personnel.

Finding No. 2

- The bank accounts have been reconciled on a timely basis from February 1992 to date. In addition, all bank related transactions have been processed on a timely basis from February 1992 to date.
- Non-payroll receipts are no longer being deposited to the payroll bank accounts. All deposits are made to Statewide Accounting as of April 1993 when it was brought to our attention that this was prohibited.

Sincerely,

Jacques Koppel
President

Minnesota Technology, Inc.