

ETHICAL PRACTICES BOARD

FINANCIAL AUDIT

FOR THE TWO YEARS ENDED JUNE 30, 1993

OCTOBER 1993

Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

93-54

ETHICAL PRACTICES BOARD

FINANCIAL AUDIT FOR THE TWO YEARS ENDED JUNE 30, 1993

Public Release Date: October 15, 1993

No. 93-54

OBJECTIVES:

- EVALUATE INTERNAL CONTROL STRUCTURE: Payroll and public subsidy grants.
- TEST COMPLIANCE WITH CERTAIN FINANCE-RELATED LEGAL PROVISIONS.

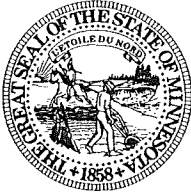
CONCLUSIONS:

We found the internal control structure to be effective.

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. Vanne Owens Hayes, Chair
Ethical Practices Board

Ms. Mary Ann McCoy, Executive Director
Ethical Practices Board

Audit Scope

We have conducted a financial related audit of the Ethical Practices Board as of and for the two years ended June 30, 1993. Our audit was limited to only that portion of the State of Minnesota financial activities attributable to the transactions of the Ethical Practices Board, as discussed in the Background Information section. We have also made a study and evaluation of the internal control structure of the Ethical Practices Board in effect during June 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 Ethical Practices Board are free of material misstatements.

As part of our study and evaluation of the internal control structure, we performed tests of the Ethical Practices 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 Ethical Practices 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;

- 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:

- payroll and
- public subsidy 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

In our opinion, the internal control structure of the Ethical Practices Board, in effect at June 1993, taken as a whole, was sufficient to meet the objectives stated above insofar as these objectives pertain to the prevention or detection of errors and irregularities in amounts that would be material in relation to the financial activities attributable to transactions of the Ethical Practices Board.

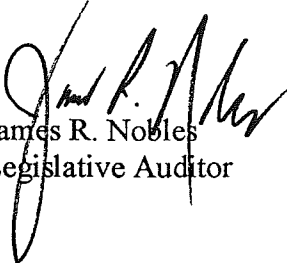
However, we noted certain matters involving the internal control structure and its operation that we reported to the management of the Ethical Practices Board at the exit conference held on June 15, 1993.

The results of our tests indicate that, with respect to the items tested, the Ethical Practices 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 Ethical Practices Board had not complied, in all material respects, with those provisions.

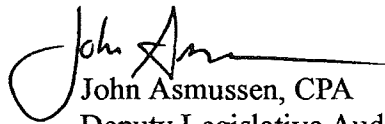
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This report is intended for the information of the Legislative Audit Commission and management of the Ethical Practices Board. This restriction is not intended to limit the distribution of this report, which was released as a public document on October 15, 1993.

We thank the Ethical Practices Board staff for their cooperation during this audit.



James R. Nobles
Legislative Auditor



John Asmussen, CPA
Deputy Legislative Auditor

End of Fieldwork: June 9, 1993

Report Signed On: October 11, 1993

Ethical Practices 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
Tom Donahue, CPA	Audit Manager
Karen Klein	Auditor-in-Charge

Exit Conference

We discussed minor weaknesses involving the internal control structure with the following staff of the Ethical Practices Board on June 15, 1993:

Mary Ann McCoy	Executive Director
Jeanne Olson	Assistant Executive Director

Ethical Practices Board

Background Information

The Ethical Practices Board was established in 1974, as a part of the Ethics in Government Act (Minnesota Statute Chapter 10A). The Governor appoints the bipartisan six member board to four-year terms, with the advice and three-fifths consent of the Senate and the House of Representatives. The board appointed Mary Ann McCoy, the current executive director, on January 12, 1981.

The Ethical Practices Board is the service and regulatory agency that develops and implements the administration and enforcement of state laws for the disclosures of public and local officials' financial interests and potential conflicts of interest; for the disclosure of lobbying disbursements to influence state legislative actions, administrative actions, and the official actions of metropolitan governmental units; and for the distribution of public financing to qualified state candidates. The primary mission of the board is to promote public confidence in state government decision making, both through effecting timely compliance with disclosure and public financing laws and through developing programs which will increase public access to information filed with the board.

A major function of the board is to administer the public financing program, through the states campaign fund. Public financing monies are generated from the voluntary checkoffs of \$5 by Minnesota residents on state income tax or renter and homeowner property tax refund forms. Designation of these monies are either to the Democratic-Farmer-Labor, or the Independent-Republican, or General accounts.

In addition, the board received an appropriation of \$340,000 in fiscal year 1992 and \$351,000 in fiscal year 1993 from the general fund. The following schedule shows the Ethical Practices Board's expenditures for fiscal years 1992 and 1993.

	<u>Fiscal Year 1992</u>	<u>Fiscal Year 1993</u>
Expenditures		
Payroll	\$252,283	\$ 263,440
Public Subsidy Grants	125,745	2,711,260
Other Expenditures	<u>89,763</u>	<u>97,897</u>
Total Expenditures	<u>\$467,791</u>	<u>\$3,072,597</u>

Source: Statewide Accounting System Manager's Financial Reports as of
September 5, 1992 and September 3, 1993.