

**OFFICE OF THE STATE TREASURER**

**FINANCIAL AUDIT**

**FOR THE YEAR ENDED JUNE 30, 1993**

**MAY 1994**

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

**94-24**



# **OFFICE OF THE STATE TREASURER**

## **FINANCIAL AUDIT FOR THE YEAR ENDED JUNE 30, 1993**

Public Release Date: May 26, 1994

No. 94-24

---

### **OBJECTIVES:**

- **EVALUATE INTERNAL CONTROL STRUCTURE:** State depository receipts and cash control, warrant redemption and control, investment transaction processing, and debt service expenditures.
- **TEST COMPLIANCE WITH CERTAIN FINANCE-RELATED LEGAL PROVISIONS.**

### **CONCLUSIONS:**

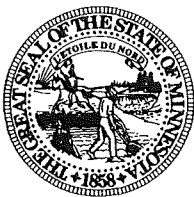
We found the internal control structure to be effective.

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

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, 1993. 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 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 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,

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**

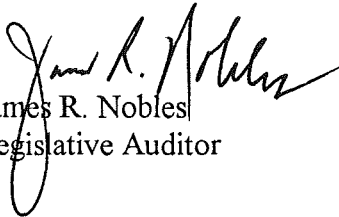
In our opinion, the internal control structure of the Office of the State Treasurer in effect at June 1993, taken as a whole, was sufficient to meet the objectives stated above insofar as those objectives pertain to the prevention or detection of errors or irregularities in amounts that would be material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

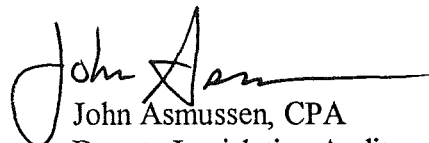
The results of our tests indicated that, with respect to the items tested, the Office of the State Treasurer complied, in all material respects, with the provisions referred to in the audit scope paragraphs. With respect to items not tested, nothing came to our attention that caused us to believe that the Office of the State Treasurer had not complied, in all material respects, with those provisions.

Senator Phil Riveness, Chair  
Members of the Legislative Audit Commission  
The Honorable Michael A. McGrath  
Page 3

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 May 26, 1994.

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: January 14, 1994

Report Signed on: May 19, 1994





# Office of the State Treasurer

---

## Table of Contents

---

	Page
Background	1

### 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
Cecile Ferkul, CPA	Auditor-in-Charge
Janet Knox, CPA	Staff Auditor
Karen Klein	Staff Auditor
Mary Annala, CPA	Staff Auditor
Geniene Herrlich	Staff Auditor
David Poliseno, CPA	Staff Auditor
Carl Otto, CPA	Staff Auditor
Tanya Morgan	Intern



# 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. The State Treasurer also serves as a member of the State Board of Investment and the Executive Council.

The Office of the State Treasurer accounts for money deposited in the state treasury until lawfully disbursed or invested. The office maintains over 300 accounts in 181 banks throughout the state. The State Treasurer made direct payments totaling \$443,784 to the state's main bank as compensation for services provided. Fiscal year 1993 was the first year that the state used direct payment to pay for banking services. In the past, the state maintained compensating account balances, allowing the bank to earn income from the balances as compensation.

Each day State Treasurer's Office employees determine the amount of idle cash available for investment and certify that amount to the State Board of Investment. The staff members process and verify investment transactions authorized by the State Board. They also monitor the adequacy of securities pledged as collateral on bank deposits.

Another function of the office is to verify and redeem state warrants, used by state agencies to satisfy lawful obligations of the state. The State Treasurer's Office determines the validity of the warrants before transferring funds to the banks for payment. During fiscal year 1993 the Treasurer's Offices processed warrants totaling over \$877 million.

As provided in the State Constitution, the State Treasurer maintains records and makes payments for principal and interest on the state's general obligation bonds. At June 30, 1993, the outstanding general obligation bonds payable totaled \$1,710,910,000. Debt service principal and interest payments during fiscal year 1993 were \$794,760,628.

In addition to its general statewide financial management responsibilities, the office deposits various fees, fines and assessments collected primarily by county government. During fiscal year 1993, deposits of these fees and fines exceeded \$32 million.

The Office of the State Treasurer receives a direct appropriation from which it pays office operating costs. Fiscal year 1993 operating expenditures totaled \$782,395. Payroll was the largest category, representing 74 percent of total operating expenditures.