
Office of the Attorney General

Financial and Compliance Audit For the Two Years Ended December 31, 1994

July 1995

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Financial Audit Division
Office of the Legislative Auditor
State of Minnesota



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

CENTENNIAL BUILDING, ST. PAUL, MN 55155 • 612/296-4708

JAMES R. NOBLES, LEGISLATIVE AUDITOR

Members of the Legislative Audit Commission

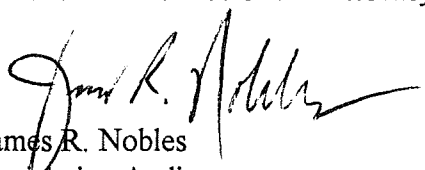
The Honorable Hubert H. Humphrey, III
Attorney General

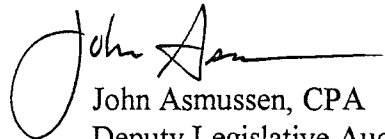
We have audited the Office of the Attorney General for the period January 1, 1993, through December 31, 1994, as further explained in Chapter 1. Our audit scope included: billings and receipts for services, payroll, and rents and leases. The following summary highlights the audit objectives and conclusions. We discuss these issues more fully in the individual chapters of this report.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we obtain an understanding of management controls relevant to the audit. The standards also require that we design the audit to provide reasonable assurance that the Office of the Attorney General complied with the provisions of laws, regulations, contracts, and grants significant to the audit.

This report is intended for the information of the Legislative Audit Commission and the management of the Office of the Attorney General. This restriction is not intended to limit the distribution of this report, which was released as a public document on July 21, 1995.

We thank the Office of the Attorney General staff for their cooperation during this audit.


James R. Nobles
Legislative Auditor


John Asmussen, CPA
Deputy Legislative Auditor

End of Fieldwork: March 30, 1995

Report Signed On: July 13, 1995

SUMMARY

State of Minnesota

Office of the Legislative Auditor
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Office of the Attorney General

Financial and Compliance Audit For the Two Years Ended December 31, 1994

Public Release Date: July 21, 1995

No. 95-33

Agency Background

The Office of the Attorney General was established by Article V of the constitution of the State of Minnesota. Hubert H. Humphrey III is currently serving his fourth term as Attorney General. The Attorney General's main duties include providing legal advice, representing state agencies and their officials, and offering direct assistance to citizens of Minnesota. The Attorney General also represents Minnesota in civil and criminal cases and is a member of the Executive Council, the Pardons Board, the Land Exchange Board, and the State Board of Investment. Total expenditures of the Office of the Attorney General during the audit period was \$50.8 million.

Audit Areas and Conclusions

Our audit scope included a review of payroll (including amounts paid by other state agencies through interagency agreements), billings for services, and rent payments for the period January 1, 1993, through December 31, 1994.

The Attorney General's Office (AGO) had numerous problems with its billing system and receipt process for interagency agreements. The AGO did not review or document changes that state agencies made to their bills. The AGO lacked procedures to follow up on accounts receivable. The AGO inappropriately credited agencies with interagency agreements for overpayments of attorneys' salaries. The AGO also lacked procedures to ensure it did not bill for salaries paid through interagency agreements. However, new legislation effective July 1, 1995, eliminates the current process.

The Attorney General's Office appropriately processed and recorded its payroll transactions for the period January 1, 1993, through December 31, 1994.

The Office of the Attorney General appropriately processed and recorded its rent transactions for the period January 1, 1993, through December 31, 1994.

Contact the Financial Audit Division for additional information.
296-1235

Office of the Attorney General

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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
Tony Toscano	Auditor-in-Charge
Joan Haskin, CPA	Auditor
Margie Caneff	Auditor

Exit Conference

The findings and recommendations in this report were discussed with the following staff of the Office of the Attorney General at the exit conference held on April 24, 1995:

John Tunheim	Chief Deputy Attorney General
Peggy Willens	Director of Finance
James Kirkpatrick	Director of Administration
Rebecca Spartz	Assistant Director of Administration
Sandy Caron	Director of Personnel
Lynette Seal	Accounting Officer
Pat Gallatin	Docketing Coordinator

Office of the Attorney General

Chapter 1. Introduction

The Office of the Attorney General (AGO) was established by Article V of the constitution of the state of Minnesota. Hubert H. Humphrey III is currently serving his fourth term as Attorney General. Among the activities the AGO lists in its mission statement are:

- to protect the interests of the citizens of Minnesota by enforcing the laws enacted by the legislature,
- to defend the state in all legal proceedings, and
- to ensure the legality of government action.

The Attorney General also represents Minnesota in civil and criminal cases and is a member of the Executive Council, the Pardons Board, the Land Exchange Board, and the State Board of Investment.

The AGO financed approximately 80 percent of its activities from General Fund appropriations during the audit period. Table 1-1 provides a summary of the AGO's financial activity, including its sources and uses of funds. For the audit period, payroll costs of approximately \$40.9 million represent 80 percent of the AGO's total expenditures of \$50.8 million.

Table 1-1
Summary of Financial Activity

	<u>Years Ended December 31</u>	
	<u>1993</u>	<u>1994</u>
Sources:		
General Fund appropriation (Note)	\$21,547,197	\$23,100,351
Attorney General salaries charged to other agencies	1,621,758	2,349,106
Federal grants	522,930	795,462
Other	654,641	283,239
Total Sources	<u>\$24,346,526</u>	<u>\$26,528,158</u>
Expenditures:		
Payroll	\$19,557,320	\$21,404,639
Rent	1,674,639	1,807,066
Supplies and materials	539,042	456,491
Travel	276,379	316,549
Other	2,299,146	2,543,412
Total Expenditures	<u>\$24,346,526</u>	<u>\$26,528,157</u>

Note: General Fund appropriation is amount expended, not appropriated.

Source: Revenue and expenditure transactions recorded in the Statewide Accounting System from January 1, 1993, to December 31, 1994.

Office of the Attorney General

Table 1-2 provides a summary of revenues for the audit period.

Table 1-2
Summary of Revenues

	<u>Years Ended December 31</u>	
	<u>1993</u>	<u>1994</u>
Legal fees	\$4,924,852	\$4,334,088
Statutory fines	906,406	475,928
Federal receipts	522,930	795,462
Other	<u>1,319,647</u>	<u>393,521</u>
Total Revenues	<u>\$7,673,835</u>	<u>\$5,998,999</u>

Source: Revenue transactions recorded in the Statewide Accounting System from January 1, 1993, to December 31, 1994.

Chapter 2. Funding of Services

Chapter Conclusions

The Attorney General's Office (AGO) had numerous problems with its billing system and receipt process for interagency agreements. The AGO did not review or document changes that state agencies made to their bills. The AGO lacked procedures to follow up on accounts receivable. The AGO inappropriately credited agencies with interagency agreements for overpayments of attorneys' salaries. The AGO also lacked procedures to ensure it did not bill for salaries paid through interagency agreements. However, new legislation effective July 1, 1995, eliminates the current process.

The Attorney General's Office appropriately processed and recorded its payroll transactions for the period January 1, 1993, through December 31, 1994.

State legal services provided by the Attorney General's Office are funded by appropriations and interagency agreements. Minn. Stat. Sec. 8.15 requires the AGO to assess executive branch agencies a fee for legal services provided. The AGO uses two different processes to recover the costs of services provided to state agencies: billing for services rendered and entering into interagency agreements.

Billing System

The Attorney General's Office has a billing system to track hours spent on providing legal services to its clients (state agencies and local governments). The AGO staff enter detailed information from the attorneys' time sheets into the billing system. The billing system generates an invoice that the AGO sends to the client detailing the hours spent on particular projects. During the audit period, the billing rate was \$51 per hour for attorneys and \$41 for legal assistants. Minn. Stat. Sec. 8.15 requires that the assessment against appropriations, from other than the General Fund, is 100 percent of the cost of providing the services. The assessment against appropriations from the General Fund not supported by fees is 50 percent. The AGO relies on the clients to tell them which assessment percentage to use for each project.

The majority of receipts are from state agencies. State agencies process interdepartmental transfers and directly deposit the money into the General Fund. Nonstate clients submit a check for payment. The AGO deposits these in the General Fund as nondedicated receipts. Total legal fee receipts for the audit period were \$9,258,940.

Office of the Attorney General

Interagency Agreements

The Attorney General's Office has entered into interagency agreements with state agencies to finance legal services. The agreements outline the specific attorneys provided to the agency, tasks to be performed, payment rate, and a cap on the payment amount. The agreements may state what percentage of the attorney's time will be spent on the matters outlined in the agreement or may just state a dollar amount that cannot be exceeded. The agency agrees to pay the cost, salary plus fringe benefits, for a full or part-time attorney. The AGO charges attorneys' salaries plus fringe directly to the state agencies' appropriation accounts. These attorneys remain under the supervision of the AGO. Table 2-1 shows a breakdown of the interagency agreements for the audit period.

Table 2-1
Summary of Interagency Agreements

	Years Ended December 31		Total
	1993	1994	
Department:			
Pollution Control	\$317,377	\$526,581	\$843,958
Transportation	264,611	417,025	681,636
Health	255,154	325,310	580,464
Natural Resources	178,678	206,115	384,793
Housing Finance	84,327	135,188	219,515
Public Safety	55,005	99,770	154,775
IRRRB	72,866	74,887	147,753
Public Utilities Commission	56,036	80,725	136,761
Revenue	54,452	66,032	120,484
Human Services	40,981	65,620	106,601
Other	242,272	351,854	594,126
Total	<u>\$1,621,759</u>	<u>\$2,349,107</u>	<u>\$3,970,866</u>

Source: Payroll transactions recorded in the Statewide Accounting System.

Our audit focused on answering the following questions:

- Is the Attorney General's Office system for tracking hours, generating invoices for services provided, and monitoring accounts receivable accurate?
- Does the Attorney General's Office effectively monitor interagency agreements to ensure that agreement amounts are not exceeded and salaries paid through interagency agreements are not billed?
- Are the internal controls over cash receipts for legal services adequate?

During our audit, we gained an understanding of the billing system through interviews with key personnel. We tested a sample of time sheets and invoices to determine if the AGO properly recorded hours in the billing system and charged the proper rates. We also tested a sample of postings to the accounts receivable ledgers to determine if the AGO correctly posted billed amounts and receipts to the ledgers. Finally, we reviewed 22 interagency agreements for fiscal year 1994 to determine if costs incurred exceeded the agreement amount.

Office of the Attorney General

On the basis of work performed, we feel that the AGO had an adequate system for tracking hours, generating accurate invoices, and posting receipts to the accounts receivable ledger. However, we noted the following issues with the current billing system:

- no procedures to ensure that salaries paid through interagency agreements were not billed,
- changes to the invoices that were not reviewed or documented,
- credits to the billing system for interagency agreement payments, and
- lack of procedures to follow up on accounts receivable.

The AGO did not have procedures to ensure that salaries paid through interagency agreements were not billed. If an agency had an agreement to pay 100 percent of an attorney's salary, then the AGO changed the attorney's hourly rate in the billing system to zero. The agency did not pay through the billing system for those services provided by the attorney. However, if an agency had an agreement for less than 100 percent of the attorney's time, then the AGO billed the agency for all the attorney's time. It was up to the agency to review the bill and ensure that it had not paid twice for attorney services. We found one occurrence where the Department of Public Safety paid part of the attorney's salary through an interagency agreement and also paid for all the time charged for that attorney on the invoice, thus paying twice for the attorney's services.

During our testing, we discovered three instances where agencies did not pay the amount due on the invoice. This could be due to the agency deducting the billed amounts for attorneys with whom they have an interagency agreement. However, for two of the instances there was no documentation in the AGO files of why the agencies changed the amounts. The AGO billed the Pollution Control Agency (PCA) \$48,599 for services provided in June 1993. The PCA paid the AGO \$31,814 for these services. The AGO billed the Department of Administration \$22,412 for the quarter ended March 31, 1994. The department paid the AGO \$22,152. The AGO did not review the changes made. It just changed the amount billed on the accounts receivable ledger to agree with what the agency determined the amount due to be.

During the audit, we found that the Department of Natural Resources (DNR) deducted \$14,332 from its June 1994 bill. The DNR had an interagency agreement to pay 100 percent of the salaries for two attorneys. Thus, the bill did not include any charges for these two attorneys' hours. However, the DNR stated that it was taking a credit for time the attorneys worked on projects other than those specified in the agreement.

We also found that the AGO credited the billing system for overpayments of attorneys' salaries by agencies with interagency agreements. This occurred when an attorney did not provide the number of hours of service to an agency as outlined in the interagency agreement. The agency had paid for more hours than it received. Instead of completing an expense transfer to charge those hours to the AGO's appropriation, the agency received a credit against the hours billed for other attorneys' work and the General Fund did not receive all the money due it.

Office of the Attorney General

The AGO did not have procedures to follow up on accounts receivable. The AGO only sent current invoices each quarter or month. At the end of fiscal year 1994, the AGO staff sent letters to agencies notifying them of outstanding amounts. The AGO did not aggressively pursue receivables because it did not receive the funds. All monies were deposited into the General Fund.

We also found some problems with the interagency agreements. The AGO did not adequately monitor the agreements during fiscal years 1993 and 1994. During our review, we found that agreement amounts were exceeded for 9 of the 22 items tested. However, the AGO did implement a monitoring process for fiscal year 1995. The AGO monitored the percentage of time the attorney worked for the agency and compared it to the percentage of time outlined in the interagency agreement.

These problems will not continue under the new funding system. Effective July 1, 1995, funding for legal services will be strictly appropriation based. The AGO will not be billing any agencies nor collecting any receipts. Interagency agreements will not involve specific attorneys. We did, however, identify an overbilling that should be corrected. We also found an issue with cash receipts that should be addressed in the future.

1. The Attorney General's Office overbilled the Department of Public Safety.

The Attorney General's Office billed the Department of Public Safety (DPS) for hours worked by an attorney with whom the agency had an interagency agreement. Under the agreement, the DPS was to pay the attorney through the payroll system for work he performed for them. The maximum amount that the DPS owed was \$15,000. The AGO billing for the quarter ending June 30, 1994, included charges of \$19,979 for this attorney's time. The DPS did not adjust the bill and paid the full amount due, thus paying twice for the attorney's services.

Recommendation

- *The Attorney General's Office should review the Department of Public Safety's invoice and determine the amount to credit or refund the department.*

2. Internal controls over cash receipts for legal services need improvement.

Currently, the Attorney General's Office staff record checks received from political subdivisions and quasi-state agencies in a log. The AGO keeps the checks in an "in" basket overnight. The next day the AGO prepares a deposit slip and restrictively endorses the checks. The AGO should restrictively endorse checks immediately upon receipt and keep them in a secure place until deposited. No one independently reconciled the check log or the deposit slips to the Statewide Accounting (SWA) system receipt reports to ensure that all checks received were deposited and recorded correctly on the SWA system.

Office of the Attorney General

Recommendation

- *The Attorney General's Office should ensure that:*
 - *receipts are kept in a secure location until deposited,*
 - *checks are restrictively endorsed immediately upon receipt, and*
 - *receipt reconciliations are performed by independent staff.*

Payroll

The Office of the Attorney General employs approximately 440 employees. The AGO accounting staff process payroll through the statewide payroll system on a bi-weekly basis. For the two years ended December 31, 1994, the office disbursed \$36,991,096 in personnel expenditures.

In addition, the AGO enters into interagency agreements with various agencies that pay the salary and fringe for these attorneys. For the two years ended December 31, 1994, total payroll and fringe paid by other agencies for attorney services totaled \$3,970,864.

We focused our review of payroll on the following objectives:

- Does the Attorney General's Office have policies and procedures to ensure that payroll is properly authorized, adequately supported, and accurately processed?
- Does the Attorney General's Office limit access to the payroll system to appropriate personnel?

The audit methodology used to evaluate the audit objectives over payroll included inquiries, analytical reviews, and sampling. We interviewed payroll staff to gain an understanding of the payroll system. We tested a sample of time sheets, employee files, and payroll reports to ensure that the AGO properly authorized, adequately supported, and accurately processed payroll. In addition, we completed an analytical review of pay increases and verified that the AGO properly authorized these increases within the provisions of the compensation plans.

Our review of payroll found that the AGO properly authorized, adequately supported, and accurately processed payroll expenditures. The AGO properly authorized pay increases and paid employees according to the compensation plans. Finally, the AGO limited access to the payroll system to appropriate personnel.

Chapter 3. Rents

Chapter Conclusion

The Office of the Attorney General appropriately processed and recorded its rent transactions for the period January 1, 1993, through December 31, 1994.

The Office of the Attorney General (AGO) employs approximately 440 employees located in several different facilities. The AGO enters into lease agreements for office space to house its employees. All of the lease agreements are processed through the Real Estate Management Division of the Department of Administration. The AGO currently is leasing space for its employees in three separate buildings. For the two years ended December 31, 1994, the AGO disbursed \$3,481,706 in rent expenditures. This amount includes not only payments for office space, but also payments for parking spaces, equipment rentals, room rentals, etc. Table 3-1 summarizes rent expenditures for the audit period.

Table 3-1
Summary of Rent Expenditures

	Year Ended December 31		Total
	1993	1994	
Vendor:			
Shelard Group	\$410,515	\$799,159	\$1,209,674
Capitol Office Building	604,100	495,268	1,099,368
Space Center	341,030	256,824	597,854
Parking Services Inc.	38,417	156,616	195,033
Employee Paid Parking	(16,640)	(63,129)	(79,769)
Real Estate Management	73,290	85,871	159,161
Other	223,927	76,458	300,385
Total	<u>\$1,674,639</u>	<u>\$1,807,067</u>	<u>\$3,481,706</u>

Source: Rent transactions recorded in the Statewide Accounting System from January 1, 1993, to December 31, 1994.

We focused our review of rent payments on the following objectives:

- Are all rent payments supported by a properly executed rental contract?
- Are rent payments being made in accordance with the rental contracts?
- Are rent payments being properly recorded in the Statewide Accounting (SWA) system?

Office of the Attorney General

During our audit, we gained an understanding of the rent payment cycle through interviews with key personnel. We performed a review of the rental payments made throughout the audit period and focused our testing on the rental contracts that account for approximately 93 percent of the rental payments. We performed testing to ensure that all payments were accurate and supported by a properly executed rental contract, as well as properly recorded on the SWA system.

On the basis of our review of payments made throughout the audit period, we conclude that the rent payments made by the AGO were:

- supported by properly executed rental contracts,
- made in accordance with the rental contracts, and
- properly recorded in the Statewide Accounting System.

As part of our review of leases, we observed that the Office of the Attorney General subsidized \$115,264 in parking costs for some of its employees. Specifically, the AGO has leased from Parking Services, Inc. approximately 80 parking spaces at the City Walk Parking Ramp. Table 3-1 indicates total payments to Parking Services, Inc. of \$195,033 for the audit period. During this same period, the Department of Finance withheld \$79,769 from AGO employees, through bi-weekly payroll deductions, for parking. This amount has been credited back to the AGO's account in the form of expenditure reductions.

Minn. Stat. Section 16B.58, Subd. 8, provides that "the commissioner (of Administration) shall charge state employees for parking facilities which are used by them and furnished for their use pursuant to any lease entered into between the state and the lessor of any privately owned property situated in the seven-county metropolitan area." However, the Real Estate Management Division of the Department of Administration has allowed the AGO to continue subsidizing employee parking through June 30, 1997.



STATE OF MINNESOTA

OFFICE OF THE ATTORNEY GENERAL

HUBERT H. HUMPHREY III
ATTORNEY GENERAL

July 7, 1995

102 STATE CAPITOL
ST. PAUL, MN 55155-1002
TELEPHONE: (612) 296-6196

Mr. James R. Nobles
Legislative Auditor
Office of the Legislative Auditor
Centennial Building
St. Paul, Minnesota 55155

Dear Mr. Nobles:

Thank you for the opportunity to respond to the recommendations of the financial audit recently completed by members of your staff and covering the activities of the Attorney General's Office (AGO) during the two-year period ending December 31, 1994.

I am pleased that your report found no material weaknesses in our payroll or rent transactions. I will address my comments to those areas in which your audit team did find weaknesses. Both of your specific recommendations involve the billing system.

As you know, for several years we have sought to improve the system whereby legal services are funded in the state. The 1993 Legislature created a task force to examine this issue, and the 1994 Legislature passed legislation recommended by that task force to simplify and streamline what had become an overly complex, inequitable and confusing system. Beginning on July 1, 1995, we will not need to enter into the salary agreements that caused so many of the problems identified in your report. In fact, we should have none of the difficulties of the old funding system and should find ourselves much better able to manage the funding of legal services to state agencies and the citizens of Minnesota.

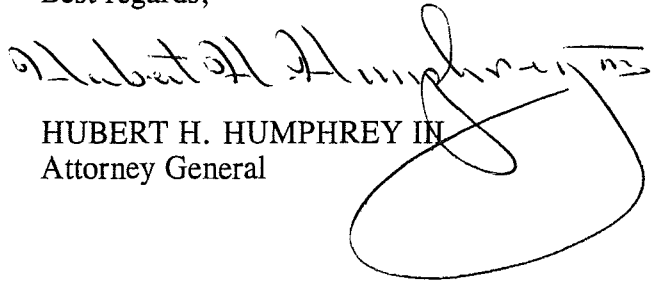
Regarding a specific instance of over-payment by a state agency, your report recommends that the AGO **"should review the Department of Public Safety's invoice and determine the amount to credit or refund the department"** for activity occurring during the quarter ending June 30, 1994. The Director of Finance for the AGO, Peggy Willens, will be responsible for conducting this review and resolving the situation.

Regarding our cash receipts, your report recommends that the AGO should ensure that **"receipts are kept in a secure location until deposited, checks are restrictively endorsed immediately upon receipt, and receipt reconciliations are performed by independent staff."** I understand from Peggy Willens that our check-handling process was adjusted immediately upon her receiving this suggestion from the audit team, and that we will be performing this reconciliation in the future.

Mr. James R. Nobles
July 7, 1995
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It has been a pleasure to work with you and your audit staff. If I or my staff members can be of any further assistance, please contact me.

Best regards,



HUBERT H. HUMPHREY III
Attorney General