

Office of the State Auditor

Selected Scope Financial Audit For the Two Years Ended December 31, 1994

September 1995

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Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

95-37



STATE OF MINNESOTA
OFFICE OF THE LEGISLATIVE AUDITOR
CENTENNIAL BUILDING, ST. PAUL, MN 55155 • 612/296-4708
JAMES R. NOBLES, LEGISLATIVE AUDITOR

Representative Ann Rest, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission


Ms. Judith Dutcher, State Auditor
Office of the State Auditor

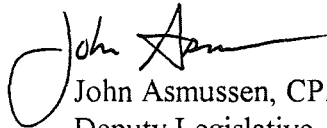
We have audited the Office of the State Auditor for the period January 1, 1993, through December 31, 1994, as further explained in Chapter 1. Our audit scope included: audit practice receipts, personnel services, travel expenses, capital equipment, professional technical services, purchased services, and appropriation control. 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 State Auditor complied with provisions of laws, regulations, and contracts that are significant to the audit.

This report is intended for the information of the Legislative Audit Commission and the management of the Office of the State Auditor. This restriction is not intended to limit the distribution of this report, which was released as a public document on September 1, 1995.

We thank the Office of the State Auditor staff for their cooperation during this audit.


James R. Nobles
Legislative Auditor


John Asmussen, CPA
Deputy Legislative Auditor

End of Fieldwork: April 7, 1995

Report Signed On: August 28, 1995

SUMMARY

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

Office of the State Auditor

Selected Scope Financial Audit For the Two Years Ended December 31, 1994

Public Release Date: September 1, 1995

No. 95-37

Agency Background

The Office of the State Auditor (OSA) was established by Article V of the state Constitution and operates under Minnesota Statute Chapter 6. The State Auditor is elected for a four-year term. Judith Dutcher, the current State Auditor, began her term on January 2, 1995. Mark Dayton, the former State Auditor, served for one term, which began on January 7, 1991. The State Auditor serves on the state's Executive Council, State Board of Investment, Land Exchange Board, State Housing Finance Agency Board, Board of Government Innovation and Cooperation, the Public Employees Retirement Association Board, and the Rural Finance Authority.

The OSA receives support for its operations in the form of state appropriations. Minn. Stat. Section 6.58 requires the OSA to bill audit clients for the costs of audits and examinations at a rate sufficient to cover the cost of its audits. The audit practice receipts collected from clients are deposited as nondedicated receipts in the General Fund.

Selected Audit Areas and Conclusions

Our audit scope included a review of the Office of the State Auditor appropriation, audit practice revenue, personnel services, and administrative expenditures for the period from January 1, 1993, through December 31, 1994.

We audited the OSA's compliance with its legal appropriation authority. The OSA spent its state appropriation within its appropriation authority, except that the OSA inappropriately provided support services, office space, and parking to the Board of Government Innovation and Cooperation. The OSA also did not obtain sufficient General Fund reimbursement for costs related to audits of police and fire relief associations.

We also audited the OSA's audit practice revenue obtained through reimbursable audit costs from OSA clients. We concluded that the OSA properly billed for audit costs.

Finally, we reviewed OSA expenditures. We audited the OSA's personnel services during the audit period for compliance with applicable legal requirements and to verify transactions were properly processed and recorded. No personnel service problems came to our attention during the audit.

The administrative expenditures we reviewed were: travel, professional technical services, purchased services, and capital expenditures. We verified the reliability of procedures and accuracy of transactions. No expenditure problems came to our attention during the audit.

Contact the Financial Audit Division for additional information.
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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
Mary Annala, CPA	Auditor-in-Charge
Fubara Dapper	Auditor

Exit Conference

The findings and recommendations in this report were discussed with the following staff of the Office of the State Auditor on August 8, 1995:

Judith H. Dutcher	State Auditor
Deno Howard	Department Representative
Greg Hierlinger	Department Representative
Terence Pohlkamp	Department Representative

Chapter 1. Introduction

The Office of the State Auditor (OSA) was established by Article V of the State Constitution and operates under Minnesota Statute Chapter 6. The State Auditor is elected for a four-year term. Judith Dutcher is the current State Auditor and her term began on January 2, 1995. Mark Dayton, the former State Auditor, served for one term, which began on January 7, 1991. The State Auditor serves on the state's Executive Council, State Board of Investment, Land Exchange Board, State Housing Finance Agency Board, Board of Government Innovation and Cooperation, the Public Employees Retirement Association Board, and the Rural Finance Authority.

The OSA has authority by law to conduct annual financial audits of counties, cities, organizations affiliated with counties and cities, police and fire relief associations, and other local governments throughout the state. In addition, the State Auditor's Research Division analyzes local government financial data to assist the state and local governments. The Special Investigations Unit works to assure integrity and accountability in local government by investigating wrongdoing that has been uncovered or suspected. Police and Fire Relief Oversight monitors the financial and actuarial reporting for the various police and fire relief associations throughout the state. The Single Audit Division determines if single audit reports submitted to the OSA comply with reporting requirements of the Single Audit Act of 1984, Office of Management and Budget Circulars A-128 or A-133, and the American Institute of Certified Public Accountants, Audit and Accounting Guide, "Audits of State and Local Governmental Units."

OSA activities, including the audit division, have been fully funded by General Fund appropriations since July 1, 1990. The OSA's appropriations for fiscal years 1993, 1994, and 1995 were \$6,755,000, \$7,210,000, and \$7,439,000, respectively. Appropriation control is discussed in Chapter 2. Minnesota Statute Section 6.58 requires that the State Auditor collect fees from audited organizations to cover the total cost and expense of audit examinations. These fees are deposited to the credit of the General Fund. We discuss the audit practice revenue in Chapter 3. OSA expenditures are discussed in Chapter 4.

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Table 1-1 summarizes the financial activity from January 1, 1993, through December 31, 1994.

Table 1-1
Summary of OSA Revenues and Expenditures
For the Two Years Ended December 31, 1994

	Calendar Year	
	1993	1994
Revenue:		
Audit Practice	\$4,285,918	\$6,208,509
Other Revenue	51,338	55,358
Total Revenue	<u>\$4,337,256</u>	<u>\$6,263,867</u>
	Calendar Year	
	1993	1994
Expenditures:		
Payroll	\$5,688,451	\$5,655,329
Travel, In and Out State	277,818	273,793
Capital Equipment	362,379	181,497
Contractual Services	360,349	393,616
Other Expenditures	180,343	132,619
Total Expenditures	<u>\$6,869,340</u>	<u>\$6,636,854</u>
Less Nonreimbursable Expenditures (Amount provided by State Auditor see Note 1)	<u>1,477,948</u>	<u>1,639,882</u>
Reimbursable Expenditures	<u>\$5,391,392</u>	<u>\$4,996,972</u>

Note 1: The amounts for payroll include staff associated with the constitutional officer duties, special investigations, police and fire oversight, research and information activities, and Single Audit activities. These activities are not offset through the audit service charges collected by the agency. The constitutional officer duties and special investigations are not fee generating activities, but are paid from General Fund appropriations. However, the police and fire oversight and the research and information activities are reimbursed to the state's General Fund as a reduction of state or local aid. Single Audit activities are recovered through the statewide indirect cost process.

Source: The following statewide accounting system reports were adjusted to a calendar year basis. Managers Financial Reports as of December 31, 1992, September 4, 1993, September 2, 1994, and December 31, 1994; and Estimated/Actual Receipt Reports as of December 31, 1992, September 4, 1993, September 3, 1994, and December 31, 1994.

Chapter 2. Appropriation Control

Chapter Conclusions

The Office of the State Auditor (OSA) complied with appropriation laws, except that the OSA inappropriately provided support services, office space, and parking to the Board of Government Innovation and Cooperation. The OSA did not request sufficient funds from the Department of Revenue to recover the cost of police and fire audits and examinations as required by Minn. Stat. Section 69.021, Subd. 5.

Background

The OSA received funding for its entire operation through one appropriation. This appropriation was available for the State Auditor to conduct official business. We summarized the State Auditor's resources for the 1994-1995 biennium in Table 2-1. The Legislature appropriated money on a fiscal year basis. Table 1-1 shows the revenues and expenditures for the last two years of the State Auditor's elected term in a condensed form.

The audit practice expenditures are generally recovered by billing the audited organization for reimbursable audit costs. The State Auditor is required to recover these costs by Minn. Stat. Section 6.58. We discuss audit practice receipts in Chapter 3. The recovery of revenue for audit practice expenditures is used to replenish the General Fund.

We observed appropriation transfers from audit practice to other OSA activities. The OSA appropriation law does not prohibit transfers of funds between activities, or specifically discuss budgetary provisions of OSA activities, except for single audit. The State Auditor sent letters dated June 7, 1994 and December 22, 1993 to the Legislature discussing the transfers between programs. The total transfers were \$791,000 and \$131,000 for fiscal years 1994 and 1993, respectively. Table 2-1 summarizes the total amount transferred from audit practice to other activities during the 1994 - 1995 biennium. Audit practice and police and fire association audits have legislative provisions allowing the recovery of audit costs. These revenues are credited to the General Fund. The effect of transferring funds from a reimbursable activity to a nonreimbursable activity is to potentially increase the net cost to the General Fund for OSA activities.

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Table 2-1
Summary of OSA Resources Available by OSA Program
For the Biennium From July 1, 1993 - June 30, 1995
Appropriation Transactions thru December 31, 1994

Activities	Original Allocation	Program Transfers	Other Net Resource s	Insurance Supplement	Total Resources Available
Reimbursable:					
Audit Practice (1)	\$13,109,000	(\$922,000)	\$40,865	\$ 35,461	\$12,263,326
Police/Fire Relief Oversight (2)	144,000	322,000		1,594	467,594
Nonreimbursable:					
Constitutional Office	446,000	94,000		1,239	541,239
Research and Information (3)	796,000	99,000	1,453	2,595	899,048
Special Investigation		407,000			407,000
Single Audit (4)	154,000			1,102	155,102

Notes:

- (1) A separate allotment for special investigations was made starting in fiscal year 1995; in fiscal year 1994, it was combined with the audit practice allotment.
- (2) The funds expended for police and fire relief oversight audits are reimbursable expenditures. During fiscal year 1994, the OSA requested \$72,000 from the Department of Revenue for the cost of police and fire audits and examinations. The OSA did not request sufficient funding to reimburse the General Fund as discussed in Finding 2. During fiscal year 1995, the OSA's police and fire oversight program requested \$266,900 from the Department of Revenue for police and fire relief association audits and examinations as required by Minn. Stat. Section 69.021, Subd. 5. The \$266,900 request is a 1995 estimate of costs and expenses to conduct the police and fire relief association audits or examinations. The 1995 estimate may result in an overage or shortage when compared to the 1995 actual cost of police and fire relief association audits or examinations. The State Auditor needs to adjust future reimbursement requests to compensate for the actual costs of audits and examinations completed in the prior year.
- (3) According to Minn. Stat. Section 477A.014, Subd. 4, up to \$217,000 per year is deducted from local government aids to reimburse the state for costs associated with OSA research and information activities.
- (4) Single Audit costs are submitted to the Department of Finance for inclusion in the statewide indirect cost allocation plan, and applicable federal reimbursements are deposited in the General Fund.

Sources: Statewide accounting system Appropriation Balances Within Fund Report as of September 2, 1994 and December 31, 1994, and OSA biennial budget reconciliations.

The OSA developed a relationship with the Board of Government Innovation and Cooperation. The Board of Government Innovation and Cooperation was created by the Minnesota Laws of 1993, Article 15, Section 2. The board accepts applications and provides grants to local governments to enhance the efficiency, innovation, and cooperation of government. During the July 14, 1993, board meeting, Mark Dayton, State Auditor, was elected chair of the board for a one-year term.

The 1993 law appropriated \$1.2 million from the Local Government Trust Fund for board operations. During the July 14, 1993 board meeting, \$60,000 of the appropriation was initially budgeted for administrative purposes to cover the cost of salaries and benefits for personnel and miscellaneous expenses such as telephone, postage, and printing. Subsequently, during the September 9, 1993 board meeting, the members voted to increase the annual administrative budget to \$200,000 during both years of the biennium.

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Audit Objectives

Our audit objectives included the review of OSA appropriations and the relationship of the OSA and the Board of Government Innovation and Cooperation. Our audit coverage did not include the financial transactions of the board. Our objectives included the following questions:

- Has the agency complied with appropriation laws?
- Did the State Auditor properly provide services or financial support to the Board of Government Innovation and Cooperation?

Methodology

To achieve these objectives we completed our research in the following manner. We obtained and reviewed appropriation legislation, appropriation accounts, and appropriation transfers. To determine the State Auditor's role regarding the Board of Government Innovation and Cooperation, we reviewed the legal provisions creating the board. We discussed board activities with key individuals. We obtained copies of board minutes discussing the establishment of the board. We used computer software to analyze financial data.

Conclusions

The Office of the State Auditor complied with the provisions of the appropriation laws, except that the OSA inappropriately provided support services, office space, and parking to the Board of Government Innovation and Cooperation. The OSA used five appropriations accounts to summarize the appropriation activity. The OSA transferred funds from the audit practice program to other activities such as the constitutional office, research and information, police/fire relief oversight, and special investigations. The State Auditor informed the Legislature regarding these appropriation transfers. The State Auditor had the authority to make transfers to meet the operating demands and goals of the agency.

The Office of the State Auditor improperly used its appropriation to assist the Board of Government Innovation and Cooperation. The OSA provided support services such as processing payroll and accounting transactions through the statewide accounting system. The State Auditor also provided office space and parking for the executive director and program consultant (see Finding 1). The OSA also did not request sufficient funding from the Department of Revenue to recover the cost of police and fire audits and examinations as required by Minn. Stat. Section 69.021, Subd. 5 (see Finding 2).

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1. The State Auditor improperly provided support services, office space, and parking for the Board of Government Innovation and Cooperation.

The OSA used its appropriation and personnel to process the Board of Government Innovation and Cooperation financial transactions and provide office space and parking. The State Auditor does not have the legal authority to incur these costs on behalf of the board. The OSA had processed financial transactions placing demands on the time of the OSA accounting employees. The time used to process board transactions should have been used exclusively for OSA activities. We estimate the OSA provided the board with approximately \$5,900 free office space and parking. The board began paying for its office space and parking starting January 1, 1995.

Minn. Stat. Section 465.796, Subd. 3, states, "the board may hire staff or consultants as necessary to perform its duties." This provision allows the board to obtain the support services required to conduct the board activities. Minn. Stat. Section 16B.37, Subd. 4, states, "to avoid duplications and improve efficiency, the Commissioner of Administration may direct an agency to do work for another agency or may direct a division or section of an agency to do work for another division or section within the same agency and shall require reimbursement for the work." The OSA did not, however, obtain the authority from the Commissioner of Administration, nor did it seek reimbursement for the cost of services provided to the board.

Recommendation

- *If the State Auditor is to provide future support to the Board of Government Innovation and Cooperation, it should seek authorization pursuant to Minn. Stat. Section 16B.37, Subd. 4.*
- ### **2. The Office of the State Auditor did not properly request sufficient reimbursement to the General Fund for the cost of audits and examinations related to police and fire relief associations.**

For fiscal year 1994, the State Auditor did not request the proper amount of reimbursable audit costs from the Department of Revenue. For fiscal year 1995, Minn. Stat. Section 69.021, Subd. 5, did not clearly identify the basis the State Auditor needed to use to request future audit cost reimbursements from the Department of Revenue.

Minn. Stat. Section 69.021, Subd. 5, states "the amount of fire state aid...this amount shall be reduced by the amount required to pay the State Auditor's costs and expenses of the audits or exams of the firefighters relief associations," and "the total amount for apportionment in respect to peace officer state aid...reduced by the amount required to pay the State Auditor's costs and expenses of the audits or exams of the police relief association."

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The amount recovered was previously limited by the OSA appropriation law. Laws of Minnesota for 1991, Chapter 345, Article 1, Section 12, limited the amount of audit costs recovered from the police and fire relief associations to \$71,000 annually. Laws of Minnesota for 1993, Section 192.9, no longer limited the amount of audit costs recovered.

For fiscal year 1994, OSA incurred \$151,344 of costs related to audits and examinations of the police and fire relief associations. The OSA limited its request to \$72,000 because it was not aware of the change in the appropriation law. The General Fund absorbed \$79,300 in audit costs related to the police and fire relief, because the OSA did not report its full costs to the Department of Revenue.

During fiscal year 1995, the OSA police and fire oversight program requested \$266,900 from the Department of Revenue for police and fire relief association audits and examinations as required by Minn. Stat. Section 69.021, Subd. 5. The \$266,900 request is a 1995 estimate of costs and expenses to conduct the police and fire relief association audits or examinations. The 1995 estimate may result in an overage or shortage when compared to the 1995 actual cost of police and fire relief association audit or examinations. The State Auditor needs to determine how future reimbursement requests should be calculated to properly reflect actual costs.

Recommendations

- *The State Auditor should comply with the provisions of the Minn. Stat. Section 69.021, Subd. 5, and request sufficient General Fund reimbursement to recover the cost of audits and examinations of the police and fire relief associations in subsequent years.*
- *The State Auditor should apply a reasonable and consistent interpretation of Minn. Stat. Section 69.021, Subd. 5, to determine the proper basis for audit costs to be reported to the Department of Revenue.*

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Chapter 3. Audit Practice Revenue

Chapter Conclusions

For the period reviewed, the Office of the State Auditor properly processed and collected audit practice receipts. The State Auditor generated sufficient revenues to recover reimbursable audit costs.

Background

The State Auditor is responsible for collecting fees from audited organizations to recover audit costs. Minn. Stat. Section 6.58 states that the General Fund shall be used to provide personnel, pay other expenses, and for acquisition of equipment used in connection with reimbursable examinations and other duties pursuant to law. The law also states that the State Auditor shall review and adjust the schedule of charges for such examinations at least annually to insure that the amount collected shall be sufficient to pay all the costs connected with such examinations during the fiscal year. The receipts collected by the State Auditor are deposited into the General Fund as nondedicated receipts. A 1989 law changed the State Auditor's funding from a revolving fund to a General Fund appropriation.

Audit Objectives

During our review of receipts we considered the following questions:

- Did the Office of the State Auditor properly collect and deposit receipts?
- Was the State Auditor's method of summarizing employee hours and employee expenses accurate and properly shown on billings?
- Did the accounts receivable ledger accurately show transactions?
- Were billings sufficient to recover audit practice costs?

Methodology

We obtained a summary of the financial data shown on the statewide accounting system. Through the use of a computer software program, we organized and summarized the financial data. We obtained an understanding of the billing and receipt process. We conducted tests to evaluate controls and verify the accuracy of the billing and receivable system.

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Conclusion

The State Auditor's billing and receipt records provided the following assurances:

- receipts were properly collected and deposited,
- client billings accurately reflected employee hours and employee expenses, and
- the accounts receivable ledgers accurately recorded transactions.

On a biennial basis, the State Auditor obtained sufficient revenues to offset the reimbursable audit practice expenditures. The OSA monitors audit practice revenues and expenditures on a monthly basis. An overall evaluation of revenues and expenditures is completed on an annual basis to determine the accuracy of per diem rates.

The State Auditor monitors the audit practice revenues and expenditures on an annual basis to determine the net effect for each fiscal year. However, the OSA maintains it is difficult to exactly match the audit practice revenues to expenditures within one fiscal year as required by Minn. Stat. Section 6.58. The OSA completes adjustments to compensate for the prior year overage or shortage during the current year. Its overall goal is to closely match revenues and expenditures within the biennium. Table 3-1 provides a historic summary of auditing costs and revenues. The Office of the State Auditor prepared this summary, which we reconciled to amounts recorded in the statewide accounting system.

Table 3-1
Analysis of Audit Revenues and Expenditures
Fiscal Years 1992 to 1994 and Period July 1 - December 31, 1994

	Fiscal Year 1992	Fiscal Year 1993	Fiscal Year 1994	July 1 - December 31, 1994
Total OSA Expenditures	\$6,077,416	\$6,796,111	\$7,526,287	\$4,589,773
Less: Nonaudit Costs	(1,084,979)	(1,477,263)	(2,496,970)	(2,168,829)
Net Audit Expenditures	\$4,992,437	\$5,318,848	\$5,029,317	\$2,420,944
Revenues	5,605,126	4,863,313	5,421,531	2,436,692
Over (Under)	\$ 612,689	(\$ 455,535)	\$ 392,214	\$ 15,748
				See Note 1

Note 1: The analysis of audit practice revenues and expenditures for fiscal year 1995 are summarized as of December 31, 1994.

Source: Office of the Legislative Auditor calculations based on information provided by the Office of the State Auditor.

The OSA used the statewide accounting reports to obtain the expenditure amounts. The revenues were obtained from the OSA claim journals, which are a monthly summary of billings to audited organizations. The nonaudit costs were determined by OSA internal analysis of salaries and overhead not directly charged to audited organizations.

On a biennial basis, the net revenues exceed expenditures by \$157,154 and \$407,962 for the 1992/1993 and 1994/1995 bienniums, respectively. The 1994/1995 biennium includes July 1, 1993, through December 31, 1994. Our review did not include January 1, 1995, through June 30, 1995.

Chapter 4. Administrative Expenditures

Chapter Conclusions

The Office of the State Auditor appropriately processed and recorded payroll and other administrative expenditure transactions for the period January 1, 1993, through December 31, 1994. In addition, the OSA was in compliance with material finance-related legal issues regarding payroll processing.

Personnel Services

Background

Our audit scope for payroll activity included calendar years 1993 and 1994. Payroll transactions for this period were approximately \$11 million. The Office of the State Auditor employed approximately 101 classified and 19 unclassified positions for the calendar years 1993 and 1994.

Table 4-1 compares classified and unclassified payroll expenditures for the 1993 and 1994 calendar year periods.

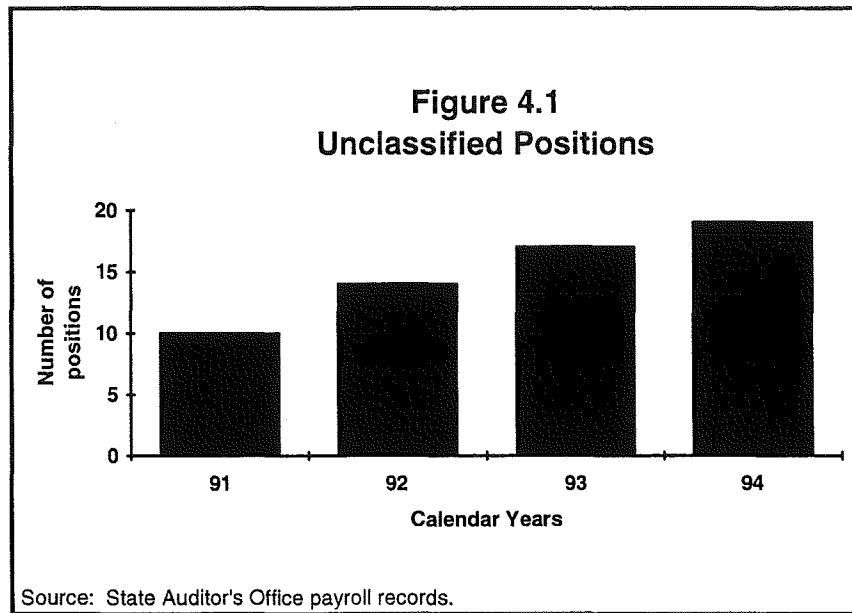
Table 4-1
Payroll Expenditures
Calendar Years 1993 and 1994

Payroll Type	Calendar Year	
	1993	1994
Classified	\$4,645,690	\$4,496,906
Unclassified	901,726	1,002,516
Other Payroll	141,035	155,907
Total Payroll	<u>\$5,688,451</u>	<u>\$5,655,329</u>

Source: Statewide accounting system Managers Financial Reports dated December 31, 1992; September 3, 1993; September 2, 1994; and December 31, 1994.

On a calendar year basis, total payroll expenditures decreased slightly. However, Figure 4-1 illustrates a steady increase in the unclassified positions from calendar years 1991 through 1994.

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The following statutes provided legislative guidance regarding the unclassified employment with OSA. Minn. Stat. Section 6.02 allowed the State Auditor to appoint three deputies and a private secretary. Minn. Stat. Section 43A.08, Subd. 1(3 and 4) provided the OSA with another deputy, assistant agency heads, and a confidential secretary as an unclassified position. Minn. Stat. Section 43A.08, Subd. 1a provided the OSA with additional unclassified positions following standards and criteria such as: the position would not be contrary to other laws relating specifically to the agency; the person would report to the agency head or deputy agency head; duties would involve significant discretion and substantial involvement in the development, interpretation, and implementation of agency policy; and other standards and criteria. These provisions allowed the OSA to maintain four deputy positions and an unlimited number of assistant state auditors depending on the availability of funds. We observed that during calendar years 1993 and 1994, the OSA created five additional unclassified positions. The increase in unclassified payroll expenditures was due partly to the creation of these positions.

Objectives

While conducting our audit, we considered the following objectives:

- Were controls over payroll processing (regular classified and unclassified, part-time, severance, vacation, overtime, and miscellaneous payments) at the OSA for the audit period adequate?
- Were payroll transactions recorded properly?
- Is the OSA in compliance with material finance-related legal issues regarding payroll processing?
- Were new unclassified positions established according to state statutes?

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Methodology

To achieve our objectives, we obtained a computerized summary of payroll transactions. This data allowed us to review, analyze, and generate samples to test payroll transactions. Samples were selected randomly using a software package. Sample items were tested for legal compliance provisions, propriety of transactions, reasonableness, proper documentation, and accuracy. In addition, we reviewed the state statutes regarding the establishment of unclassified positions, as shown above.

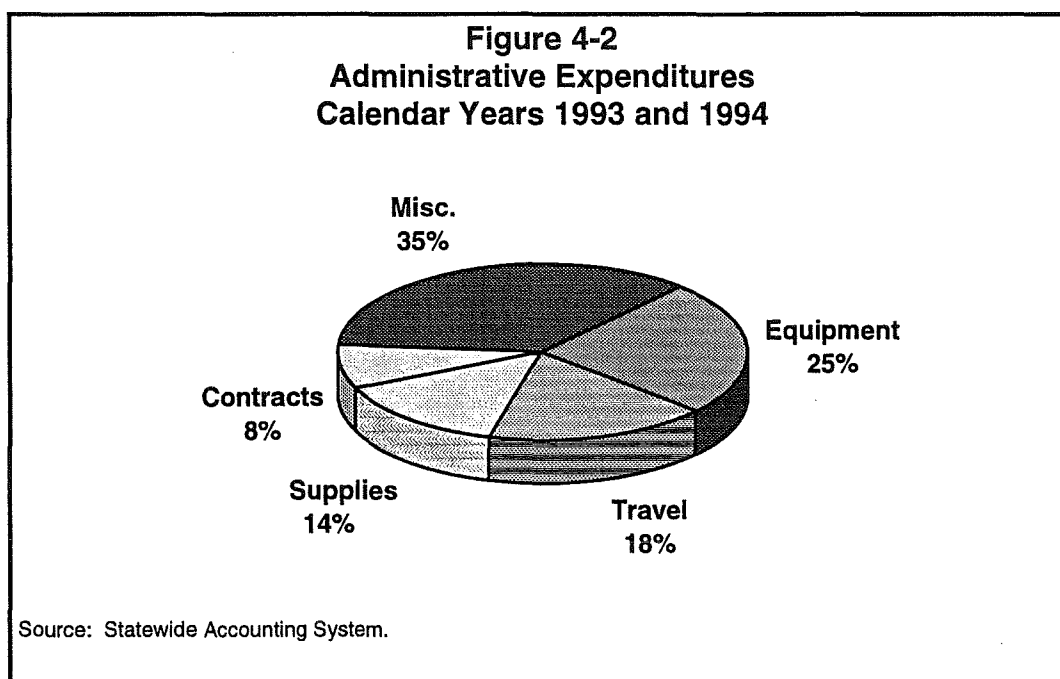
Conclusions

On the basis of testing and reviews done, payroll transactions were processed and recorded properly. The OSA was in compliance with material finance-related legal provisions regarding payroll processing. The new unclassified positions created were in accordance with statutory provisions.

Other Administrative Expenditures

Background

The OSA incurred administrative expenditures in the following categories: travel, professional technical services, purchased services, capital expenditures, supplies, and other general expenses. Figure 4-2 illustrates the calendar years 1993 and 1994 expenditures by type, excluding personnel services. Personnel services represent over 83 percent of total expenditures.



Office of the State Auditor

Travel, equipment, contracts, and supplies represent 65 percent of total administrative expenditures. The miscellaneous category on the chart is comprised mainly of rent, repairs, printing, and communications.

Audit Objectives

During our review of other expenditures we considered the following questions:

- Have the expenditures been properly and accurately processed, recorded, and paid through the statewide accounting system?
- Has the OSA followed proper procedures to obtain goods and services?
- Does the OSA have adequate procedures to safeguard the existence of assets?
- Have inventory records been consistently and accurately updated?
- Were OSA expenditures reasonable and prudent for a public entity?

Methodology

We extracted financial data through the use of a computer software package. We summarized and reviewed the financial data. From our review, we generated samples for the following expenditure types: travel, professional technical services, purchased services, and equipment. We discussed the expenditure process with appropriate staff and reviewed documentation to support expenditures. We also verified the existence of a sample of assets at the OSA or audit locations.

Conclusion

The Office of the State Auditor has properly and accurately processed, recorded, and paid expenditures through the statewide accounting system. The OSA has followed proper procedures to obtain goods and services. OSA expenditures appear reasonable for their office usage. The inventory records were consistently and accurately updated. We were able to verify a sample of assets without exceptions.



JUDITH H. DUTCHER
STATE AUDITOR

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August 18, 1995

Mr. John Asmussen, Deputy Legislative Auditor
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Dear Mr. Asmussen:

Thank you for giving us the opportunity to respond to the draft audit report for the Office of the State Auditor (hereinafter "OSA"). Our response will address each of your recommendations as discussed in the draft audit report.

Finding #1

The State Auditor improperly provided support services, office space, and parking for the Board of Government Innovation and Cooperation.

Recommendation

If the State Auditor is to provide future support to the Board of Government Innovation and Cooperation, it should seek authorization pursuant to Minn. Stat. § 16B.37, Subd. 4.

Response

Beginning January 1, 1995, the Office of the State Auditor began charging the Board of Government Innovation and Cooperation (hereinafter "Board") for office space, common area, copier costs, paper costs and parking charges. The Board continued paying this amount until April 14, 1995 when it moved to a new location.

Finding #2

The Office of the State Auditor did not properly request sufficient reimbursement to the general fund for the cost of audits and examinations related to police and fire relief associations.

OFFICE OF THE STATE AUDITOR

Mr. John Asmussen
August 18, 1995
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Recommendations

- The State Auditor should comply with the provisions of Minn. Stat. § 69.021, Subd. 5, and request sufficient General Fund reimbursements to recover the cost of audits and examinations of the police and fire relief associations in subsequent years.
- The State Auditor should apply a reasonable and consistent interpretation of Minn. Stat. § 69.021, Subd. 5, to determine the proper basis for audit costs to be reported to the Department of Revenue.

Response


Prior to fiscal year 1994, Minnesota state statute set forth a maximum amount the OSA could submit to the Department of Revenue for the cost and expenses incurred by this Office in reviewing the audits and examinations of relief associations. This specific amount was set forth in appropriation law.

Beginning in fiscal year 1994, the maximum amount the OSA was allowed to obtain was no longer contained in appropriation law. This Office did not become aware of this change until after the fiscal 1994 appropriation amount was submitted in July of 1993 and the police and fire aid was already paid to the relief associations.

Since July of 1994, the OSA has applied a reasonable and consistent interpretation of Minn. Stat. § 69.021, Subd. 5 which is in accordance with procedures established by the Department of Revenue. In addition, the law does not require a reconciliation of actual costs submitted to the Department of Revenue for the relief associations. However, because it is in the best interest of the police and fire relief associations, the OSA has begun the process of reconciling the requested appropriation with actual expenditures for fiscal year 1996.

The OSA wishes to thank the Office of the Legislative Auditor for its comments. If you should have any questions regarding this correspondence, please do not hesitate to contact me at 296-2551.

Sincerely,


Judith H. Dutcher
State Auditor

JHD/smk
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