

Office of the State Treasurer

Programs Selected For Fiscal Year 1995 Statewide Audit

February 1996

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Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

96-3



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

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JAMES R. NOBLES, LEGISLATIVE AUDITOR

Representative Ann H. Rest, Chair
Legislative Audit Commission


Members of the Legislative Audit Commission


The Honorable Michael A. McGrath
State Treasurer

We have audited selected areas of the Office of the State Treasurer for the fiscal year ended June 30, 1995, as further explained in the Background section. The work conducted in the Office of the State Treasurer is part of our Statewide Audit of the State of Minnesota's fiscal year 1995 financial statements. The Comprehensive Annual Financial Report for the year ended June 30, 1995 includes our report, issued thereon dated December 1, 1995. We emphasize that this has not been a complete audit of all financial activities of the Office of the State Treasurer. The following Summary highlights the audit objectives and conclusions.

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 require that we design the audit to provide reasonable assurance that the Office of the State Treasurer complied with provisions of laws, regulations, contracts, and grants that are significant to the audit. Management of the Office of the State Treasurer is responsible for establishing and maintaining the internal control structure and complying with applicable laws, regulations, contracts, and grants.

This report is intended for the information of the Legislative Audit Commission and the 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 February 2, 1996.


James R. Nobles
Legislative Auditor


John Asmussen, CPA
Deputy Legislative Auditor

End of Fieldwork: December 8, 1995

Report Signed On: January 24, 1996

SUMMARY

State of Minnesota

Office of the Legislative Auditor

Centennial Office Building • St. Paul, MN 55155
612/296-4708

Office of the State Treasurer

Programs Selected for Fiscal Year 1995 Statewide Audit

Public Release Date: February 2, 1996

No. 96-3

Agency Background

The State Treasurer is a constitutional officer elected by the citizens of the state to a four-year term. The Office of the State Treasurer provides banking services for most state agencies. Michael A. McGrath has served as State Treasurer since January 1987.

Audit Scope and Conclusions

Our work in the Office of the State Treasurer is completed as part of our annual Statewide Audit. The primary objective of the Statewide Audit is to render an opinion on the State of Minnesota's financial statements included in its Comprehensive Annual Financial Report for fiscal year 1995. This objective included whether the financial statements presented fairly its financial position, results of operations, and changes in cash flows in conformity with generally accepted accounting principles.

As part of our work, we were required to gain an understanding of the internal control structure and ascertain whether the Office of the State Treasurer complied with laws and regulations that may have a material effect on the state's financial statements. Our audit scope focused on the State Treasurer's responsibilities in the following areas that were material to the state's financial statements in the fiscal year ended June 30, 1995: state depository receipts and cash control, warrant redemption and control, investment transaction processing, and debt service expenditures.

The State of Minnesota's Comprehensive Annual Financial Report for the fiscal year ended June 30, 1995 includes our unqualified audit opinion, issued thereon, dated December 1, 1995. The compliance section of the Minnesota Financial and Compliance Report on Federally Assisted Programs for the fiscal year ended June 30, 1995 will include our reports on the internal control structure and compliance with laws and regulations for the state as a whole. We anticipate issuing that report in June 1996.

Contact the Financial Audit Division for additional information.

296-1235

Office of the State Treasurer

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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
Claudia Gudvangen, CPA	Audit Manager
Charlie Gill	Auditor-in-Charge
Steve Johnson	Staff Auditor
Karen Klein, CPA	Staff Auditor
Jenny Lee	Staff Auditor
David Rosoff	Intern

Exit Conference

We discussed the results of the audit with the following staff of the Office of the State Treasurer at an exit conference on January 16, 1996:

John Manahan	Deputy State Treasurer
Jerry Engebretson	Director of Treasury Operations

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, the Minnesota State Retirement System Board, and the Executive Council.

Our work in the Office of the State Treasurer is completed as part of our annual Statewide Audit. The primary objective of the Statewide Audit is to render an opinion on the State of Minnesota's financial statements included in its Comprehensive Annual Financial Report for fiscal year 1995. This includes determining whether the financial statements of the state present fairly its financial position, results of operations, and changes in cash flows in conformity with generally accepted accounting principles. As part of our work, we are required to gain an understanding of the internal control structure and ascertain whether the state complied with laws and regulations that may have a material effect on its financial statements. The State of Minnesota's Comprehensive Annual Financial Report for the fiscal year ended June 30, 1995 includes our unqualified audit opinion issued thereon, dated December 1, 1995. The Minnesota Financial and Compliance Report on Federally Assisted Programs for the fiscal year ended June 30, 1995 will include our reports on the supplementary information schedule, internal control structure, and compliance with laws and regulations. We anticipate issuing this report in June 1996.

Our audit scope focused on the State Treasurer's responsibilities in the following areas that were material to the state's financial statements in the fiscal year ended June 30, 1995:

- state depository receipts and cash control;
- warrant redemption and control;
- investment transaction processing; and
- debt service expenditures.

To address our financial statement objectives, we interviewed key department employees, reviewed applicable policies and procedures, tested representative samples of financial transactions and performed analytical procedures, as appropriate. Our specific audit work is discussed more fully in the following paragraphs.

The Office of the State Treasurer provides banking services for most state agencies. The office interacts with the Department of Finance, which provides accounting and other services, and the Investment Board which invests state moneys. The office accounts for money deposited in the state treasury until lawfully disbursed or invested. Staff verify receipts processed and recorded by state agencies, which totaled \$17 billion in fiscal year 1995, to actual bank account transactions. The office works with state agencies to resolve any discrepancies between accounting and bank records.

Office of the State Treasurer

The State Treasurer maintains over 300 accounts in 171 banks throughout the state. The total cash balance for all state accounts at June 30, 1995 was \$48 million. As a part of our audit, we confirmed bank balances and tested the State Treasurer's bank account reconciliations. In addition, in conjunction with our audit of the Department of Finance, we reviewed and tested supporting documentation for reconciliations of cash transactions recorded on the statewide accounting system and the State Treasurer's depository accounting system.

The Office of the State Treasurer monitors collateral pledged to secure funds deposited in the various state depository accounts. Pursuant to statutory requirements, state deposits cannot exceed 90 percent of the market value of the collateral pledged by the bank. The State Treasurer's system monitors the collateral balance and identifies when insufficient coverage exists. As of June 30, 1995, \$102 million in collateral was pledged to secure depository accounts. We tested compliance with Minn. Stat. Section 9.031, verifying the adequacy of collateral coverage.

Each day, the State Treasurer's Office determines the amount of idle cash available for investment and certifies that amount to the State Board of Investment. The office processes and verifies investment transactions authorized by the State Board of Investment. Funds disbursed by the State Treasurer during the fiscal year ended June 30, 1995 for investment-related transactions exceeded \$67 billion. In conjunction with our audit of the State Board of Investment, we tested the propriety of investment purchase, sale and redemption, and income transactions processed by the State Treasurer.

Another function of the office is to verify and redeem state warrants used by state agencies to satisfy lawful obligations of the state. The Treasurer's Office determines the validity of the warrants before transferring funds to the banks for payment. The Treasurer also maintains records detailing the daily balance of outstanding warrants. During fiscal year 1995, the Treasurer's Office processed warrants totaling \$12.7 billion. In addition, payments made by automatic clearing house transactions totaled \$3.4 billion. We tested the controls over warrant and automatic clearing house transactions and verified the reconciliation of outstanding warrants as recorded on the statewide accounting system to the Treasurer's outstanding warrant balance at June 30, 1995.

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, 1995, the outstanding general obligation bonds payable totaled \$1.9 billion. During fiscal year 1995, the State Treasurer made debt service payments totaling \$260 million. We verified the debt service payments to the debt amortization schedules prepared by the Department of Finance.