Department of Finance

Programs Selected For
Fiscal Year 1995 Statewide Audit

March 1996

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Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

96-13

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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

Ms. Laura M. King, Commissioner
Department of Finance

We have audited selected areas of the Department of Finance for the fiscal year ended June 30, 1995, as further explained in Chapter 1. The work conducted in the department was 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. The Minnesota Financial and Compliance Report on Federally Assisted Programs for the 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. The following Summary highlights the audit objectives and conclusions. We discuss our concerns 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 require that we design the audit to provide reasonable assurance that the Department of Finance complied with provisions of laws, regulations, contracts, and grants that are significant to the audit. Management of the Department of Finance 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 Department of Finance. This restriction is not intended to limit the distribution of this report, which was released as a public document on March 29, 1996.

James R. Nobles
Legislative Auditor

John Asmussen, CPA
Deputy Legislative Auditor

End of Fieldwork: February 2, 1996

Report Signed On: March 26, 1996

SUMMARY
State of Minnesota
Office of the Legislative Auditor
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Department of Finance

Programs Selected for Fiscal Year 1995 Statewide Audit

Public Release Date: March 29, 1996 No. 96-13

Agency Background

The Department of Finance manages the state's accounting, budgetary, and debt management activities. The department maintains the state's accounting system and monitors controls to prevent unauthorized transactions. The Commissioner of Finance, appointed by the Governor, directs the department's operations. Laura King was appointed commissioner in October 1994.

Audit Scope and Conclusions

Our work in the Department of Finance 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 gained an understanding of the internal control structure and ascertained whether the Department of Finance complied with laws and regulations that may have a material effect on the state's financial statements. Our audit scope focused on the Department of Finance's financial reporting responsibilities and the following areas that were material to our Statewide Audit objectives in fiscal year 1995: master lease program, general obligation bond sales, debt service transfers, school energy loans, component unit transfers, statewide indirect costs, and federal cash management.

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.

In addition, this report discusses our conclusions on the areas reviewed in the Department of Finance. We found that the department did not perform certain cash control procedures during fiscal year 1995. In addition, the department did not appropriately record certain debt transactions on the accounting system. Finally, the department incorrectly calculated interest liabilities related to the federal cash management improvement act.

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

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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	Senior Audit Manager
Joan Haskin, CPA	Auditor-in-Charge
Rhonda Regnier, CPA	Senior Auditor
Jenny Lee	Senior Auditor
Lori Kloos	Senior Auditor
Laura Peterson	Staff Auditor
Lucas Pannell	Intern

Exit Conference

The issues in this report were discussed with the following staff from the Department of Finance at the exit conference held on March 8, 1996:

Laura M. King	Commissioner
Rosalie Greeman	Assistant Commissioner, Accounting Services
Peter Sausen	Assistant Commissioner, Management Services
Margaret Jenniges	Director of Financial Reporting

Chapter 1. Introduction

The Department of Finance manages the state's accounting, budgetary, and debt management activities. It establishes policies and procedures to ensure consistent and reliable financial data and compliance with statutory provisions. The department maintains the state's accounting system and monitors controls to prevent unauthorized transactions. The Commissioner of Finance, appointed by the Governor, directs the department's operations. Laura King was appointed commissioner in October 1994.

Our work in the Department of Finance 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. This includes determining whether the state's financial statements 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 Statewide Audit is also designed to meet the requirements of the Single Audit Act of 1984, relating to federal financial assistance. The Single Audit Act established two additional audit objectives and requires us to determine whether:

- the state complied with rules and regulations that may have a material effect on each major federal program; and
- the state has internal accounting and control systems to provide reasonable assurance that it is managing federal financial assistance programs in compliance with applicable laws and regulations.

Our audit work in the Department of Finance focused primarily on the department's financial reporting responsibilities for preparation of the State of Minnesota's Comprehensive Annual Financial Report, the Comparison of Budget and Actual Revenues, Expenditures and Changes in Fund Balances, and the Financial and Compliance Report on Federally Assisted Programs. The department is responsible for the accuracy, fairness, and completeness of these reports.

In addition, our audit scope included the following program areas administered by the Department of Finance that were material to the state's financial statements or to our Single Audit objectives in fiscal year 1995:

- general obligation bond sales;
- debt service transfers;
- master lease program;
- school energy loans;
- transfers to component units;
- statewide indirect costs; and
- federal cash management.

Department of Finance

Also, the Department of Finance, in conjunction with other state agencies, provided centralized statewide controls in the following areas:

- statewide accounting system;
- budgets and appropriations;
- cash receipts and disbursements;
- payroll transaction processing; and
- investment transaction and income accounting.

As part of our audit, we also reviewed selected controls over these areas in the Department of Finance and other state agencies.

To address our Statewide Audit objectives, we interviewed key department employees, reviewed applicable policies and procedures, tested representative samples of financial transactions, and performed analytical procedures, as appropriate. Our testing focused on the propriety of financial statement presentation, the adequacy of internal controls, and compliance with applicable finance related laws and regulations.

The State of Minnesota's Comprehensive Annual Financial Report and the Comparison of Budget and Actual Revenues, Expenditures and Changes in Fund Balances for the fiscal year ended
June 30, 1995 include our unqualified audit opinions 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 a supplementary information schedule, the internal control structure, and compliance with laws and regulations. We anticipate issuing that report in June 1996.

In addition, we reached the following conclusions on certain financial activities we reviewed in the Department of Finance:

- The cash and debt management division consolidates lease purchases under the master lease program. Master lease draw downs in fiscal year 1995 totaled $18,747,629. The Department of Administration uses the master lease program to purchase fixed assets, such as computer equipment and motor pool vehicles. We verified payments of principal and interest that Finance received from the state revolving funds to applicable amortization schedules. We verified that master lease purchases were in compliance with Minn. Stat. Section 16A.85 and with the master equipment lease purchase agreement.

- The state provides school energy loans primarily to school districts, although some of the loans are to municipalities and other local governments. The loans are for energy related improvements to existing buildings. School districts and municipalities apply to the Department of Public Service for the loans. That department negotiates the loan agreements and determines the loan amount. The Department of Finance is responsible for disbursing the loan proceeds and depositing loan repayments. New energy loans issued during fiscal year 1995 totaled $2,359,191. Receipts from loan repayments totaled $2,394,239. We verified that all new loans issued and all principal payments received were properly recorded on SWA and were fairly presented in the state's financial statements.

- Component units are legally separate organizations for which the state is financially accountable. Component units receiving transfers from the primary government include the University of Minnesota, the Housing Finance Agency, the Higher Education Coordinating Board, and the Metropolitan Council. These component unit transfers totaled $715,965,000 in fiscal year 1995. We verified that component unit transfers complied with appropriation laws and related Minnesota statutes.

- The budget services division allocates and collects statewide indirect costs. This helps ensure that a program's expenditure base includes all operating costs and, where possible, allows for recovery of those costs from the federal government or through user fees. In fiscal year 1995, agencies reimbursed $11,919,848 to the General Fund. We gained an understanding of internal controls over indirect costs and verified compliance with Minn. Stat. Section 16A.127 and applicable federal regulations.

Finally, Chapters 2 to 4 discuss our conclusions on cash control, debt management, and federal cash management.

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Chapter 2. Cash Control

Chapter Conclusions

The Department of Finance performed various control procedures to ensure the accuracy of cash transactions recorded on the statewide accounting system (SWA) during fiscal year 1995. This included verifying the daily cash receipt and disbursement transactions recorded on SWA to related supporting records. However, the department did not perform timely reconciliations of the cash balance recorded on the SWA general ledger to the actual cash on deposit in state bank accounts, as recorded by the Office of the State Treasurer. The department's reconciliation of warrants payable recorded on the accounting system to the State Treasurer's outstanding warrant records also was not timely. In addition, the department allowed the Department of Revenue to issue over $22 million in tax refund warrants without recording them on SWA in a timely manner.

The statewide accounting system (SWA) served as the primary system to account for the state's financial activities in fiscal year 1995. The Department of Finance has established various control procedures to ensure the integrity of financial transactions recorded on SWA. Responsibility for cash controls is shared by individual state agencies, the Department of Finance, and the Office of the State Treasurer. State agencies originate the transactions recorded on SWA. The Office of the State Treasurer maintains the bank accounts through which financial transactions are processed. The State Treasurer also redeems state warrants and maintains detailed records on outstanding warrants. The Department of Finance processes certain transactions, verifies supporting documentation before authorizing other transactions, and is responsible to ensure that transactions recorded on the accounting system reconcile to the actual transactions processed through the state's bank accounts.

Table 2-1 shows the magnitude of cash transactions processed on SWA in fiscal year 1995.

Table 2-1
Summary of Cash Transactions Recorded on SWA
Fiscal Year 1995

Cash Balance, per SWA, July 1, 1994	$ 15,844,459
Receipts	17,666,452,302
Disbursements	(16,596,743,977)
Net Journal Vouchers - Note 1	(1,057,326,804)
Cash Balance, per SWA, June 30, 1995	$ 28,225,980

Note: Net journal voucher transactions relate primarily to the purchase and sale of investments.

Source: SWA general ledger and supporting records.

Department of Finance

Our review of cash control in the Department of Finance focused on the following objective:

- Did the Department of Finance establish appropriate controls to ensure the integrity of cash transactions recorded on the statewide accounting system?

We interviewed Department of Finance personnel to gain an understanding of the controls established to ensure the integrity of transactions recorded on the accounting system. We also reviewed the supporting documentation for cash, receipt and warrant payable reconciliations performed by the department. During fiscal year 1995, the Department of Finance performed daily reconciliations of receipts recorded on the accounting system to State Treasurer records. The department also verified disbursement transactions to related warrant registers each day. However, Finding 1 discusses our concern regarding certain control procedures that were not performed in a timely manner during fiscal year 1995.

Effective July 1, 1995, the department implemented new statewide accounting/procurement and payroll/personnel systems, respectively known as MAPS and SEMA4. Our current audit did not specifically focus on procedures or controls established over these systems, although we are aware that the department has not performed timely cash reconciliations as discussed in Finding 1.

1. **The Department of Finance did not perform certain control procedures to ensure the accuracy of the cash and warrant payable balances recorded on the statewide accounting system.**

The Department of Finance did not perform timely reconciliations of cash and warrant payable balances recorded on the statewide accounting system to related records maintained by the Office of the State Treasurer. In addition, the department allowed the Department of Revenue to issue over $22 million in tax refund warrants without recording the transactions on the accounting system in a timely manner.

The department did not perform monthly reconciliations of the SWA general ledger cash balance to the State Treasurer's bank account balances for at least eight months during fiscal year 1995. The department did not complete the reconciliations for the period November 1994 through June 1995 until October 27, 1995. We also noted that as of January 1996, the department had not completed any fiscal year 1996 monthly reconciliations of the cash balance recorded on the new accounting system (MAPS) to the State Treasurer's records.

Without a timely reconciliation and verification of financial transactions, errors may remain undetected. In reviewing the June 30, 1995 cash reconciliation, we noted that a $12.8 million input error went undetected for a month and a $1.9 million error was unresolved for 2.5 months. In order to maintain effective controls, the accounting records should be reviewed and errors corrected in a timely manner.

In addition, the department did not perform timely reconciliations of the warrants payable balance recorded on SWA to the State Treasurer's detail listing of outstanding warrants. Differences between SWA and the State Treasurer's system would normally relate to the timing of warrant transaction processing. However, at June 30, 1995, there were also various input errors in SWA.

Finally, the department did not enforce appropriate controls over the Department of Revenue in its issuance of certain tax refund warrants. The Department of Revenue had authority to issue refund warrants and maintain the related accounting records. The department was supposed to enter summary information in SWA to record the effect of these transactions in the appropriate accounts. Before authorizing release of the refund warrants, Finance should have verified that the Department of Revenue entered the appropriate transactions in SWA. Our review identified $22.6 million in refund warrants, dating back to June 8, 1995, that were not properly entered as disbursements in SWA until July 17 or July 18, 1995.

Recommendations

- *The Department of Finance should perform timely reconciliations of the cash and outstanding warrant balances recorded on the state's accounting system to the related State Treasurer's records.*

- *The Department of Finance should ensure that appropriate transactions are recorded in the accounting system before warrants are released.*

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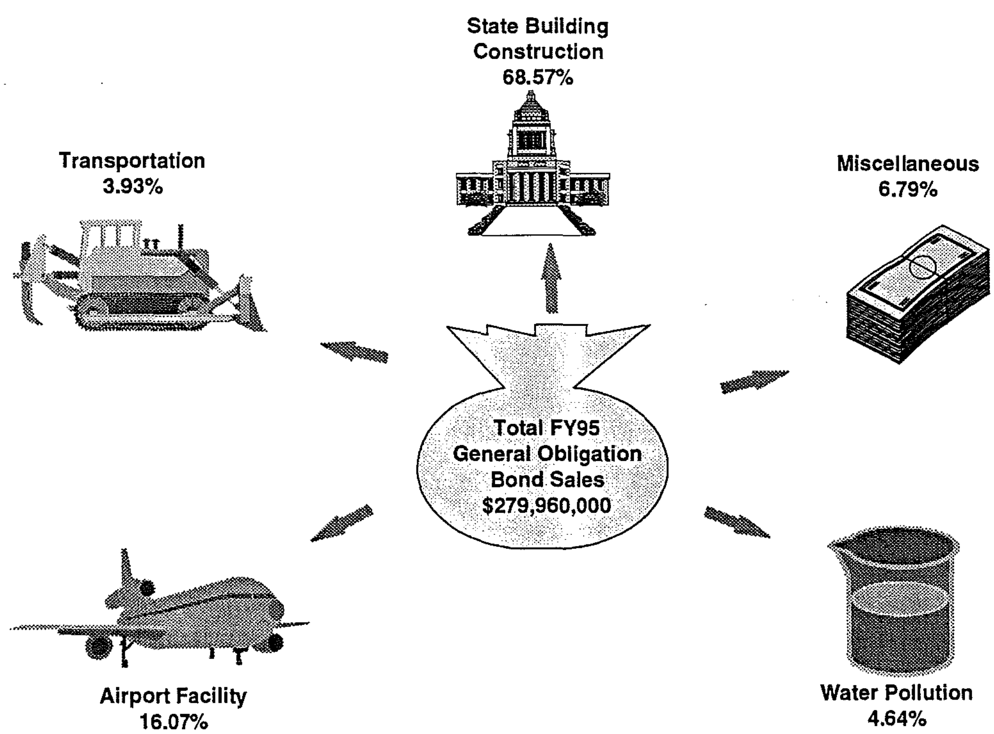
Chapter 3. Debt Management

Chapter Conclusions

The Department of Finance generally complied with applicable statutory provisions over the sale of general obligation bonds. In addition, the department appropriately transferred amounts due for future debt redemption to the Debt Service Fund in accordance with constitutional and statutory provisions. However, in fiscal years 1993 and 1994, the department deposited a portion of bond sale proceeds in an incorrect fund on the statewide accounting system (SWA). In addition, in fiscal years 1994 and 1995, the department did not appropriately record the transfer of bond proceed authorizations on SWA.

The cash and debt management division coordinates the sale of state general obligation bonds, used mainly to finance state building construction and repair. Various statutory provisions authorize the sale of general obligation bonds. In fiscal year 1995, the Department of Finance issued $279,960,000 in general obligation bonds. Figure 2-1 shows the purposes of these bond sales.

Figure 2-1
Fiscal Year 1995 Bond Sales



Source: Bond sale authorization letters.

The division also calculates constitutionally and statutorally required transfers to the Debt Service Fund to accumulate funds for repayment of the general obligation bonds. Various legal provisions require that on November 1 or December 1 each year, the Commissioner of Finance shall transfer sufficient monies that, together with the balance on hand, will be sufficient to pay all principal and interest due through July 1 of the second ensuing year. Table 2-1 shows the funding sources for operating transfers to the Debt Service Fund in fiscal year 1995.

Table 2-1
Operating Transfers to Debt Service Fund
Fiscal Year 1995

Fund Transferred From	Amount
General	$202,629,128
Building	16,178,601
Trunk Highway	12,234,197
Maximum Effort School Loan	11,135,048
Other	2,665,649
Total	$244,842,623

Source: State of Minnesota Comprehensive Annual Financial Report.

Our review of debt management in the Department of Finance focused on the following objectives:

- Did the department comply with applicable statutory provisions relating to the sale of general obligation bonds?
- Did the department comply with constitutional and statutory provisions for required reserves on deposit in the Debt Service Fund?
- Did the department appropriately record debt related transactions on the statewide accounting system?

We reviewed supporting documentation and tested compliance with constitutional and statutory provisions regarding general obligation bonds and found that the department complied with legal provisions relating to the sale of bonds and required transfers to the Debt Service Fund. However, as discussed in Finding 2, errors occurred when the department recorded certain transactions on the accounting system.

2. The Department of Finance did not properly record certain bond sale transactions on SWA.

The Department of Finance did not appropriately record the effect of bond sale proceed transfers on SWA during fiscal years 1994 and 1995. In addition, in fiscal years 1993 and 1994, the department deposited at least $2.4 million in bond proceeds in the incorrect fund.

The state could incur arbitrage liabilities to the federal government if bond proceeds are not spent in a timely manner. The department determines the amount of bonds to sell each year based on state agency estimates of cash flow needs. Proceeds are deposited in various funds on SWA based on the legal authorization for the sale and the accounting structure established for spending the funds. At times the department may find that state agencies are not spending the bond proceeds in the same time frames as originally estimated. Minn. Stat. Section 16A.641, Subd. 3, establishes authority for the department to transfer proceeds among authorizations. It provides, in part:

> At any time during the 18 months following the issuance of any series of bonds the commissioner may, by amendment to the order authorizing their issuance, determine that any portion of the bonds were issued, or shall be deemed to have been issued pursuant to a law other than the one specified in the original order and for a different purpose, and reallocate and transfer their proceeds to the appropriate account in the bond proceeds fund or the appropriate special fund, for expenditure pursuant to the law pursuant to which the amendment determines they were issued.

In May 1994 and February 1995, Finance determined that bond authorization transfers were necessary for proceeds from the April and August 1993 bond sales. The department initiated the necessary paperwork and obtained proper authorizations for transfers out of the Building Fund into various funds as shown in Table 2-2. However, department staff did not record the transfers on SWA at those times. This oversight was later detected and recorded in September 1995.

Table 2-2
Bond Proceed Transfers
May 1994 and February 1995

Fund	Amount
Transportation	$3,000,000
Maximum Effort School Loan	2,075,000
Reinvest in Minnesota	185,000
Total Transferred Out of Building Fund	$5,260,000

Source: Department of Finance debt records.

In addition, in fiscal years 1993 and 1994, the department erroneously deposited between $2.4 and $4.9 million of Reinvest in Minnesota bond proceeds on SWA. The Reinvest in Minnesota Program is administered through two different funds on the accounting system: the Building Fund and the Reinvest in Minnesota Fund. The appropriations and spending accounts for the bond sales were established in the Building Fund. However, Finance deposited the bond proceeds in the Reinvest in Minnesota Fund. As a result, the cash balance in that fund exceeds the related spending authority.

Recommendations

- *The Department of Finance should establish procedures to verify the accounting system records of bond sale activity to the related bond authorization records.*

- *The Department of Finance should adjust its current accounting records to correct the erroneous deposit of Reinvest in Minnesota bond proceeds.*

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Chapter 4. Federal Cash Management

Chapter Conclusions

The Department of Finance incorrectly calculated interest liabilities on the cash management annual report it submitted to the federal government. The department did submit the annual report timely in compliance with federal regulations.

Congress enacted the Cash Management Improvement Act (CMIA) of 1990 to ensure efficiency, effectiveness, and equity in the transfer of federal funds between state agencies and the federal government. The primary goal of the Act is to minimize the time elapsing between the transfer of funds from the U.S. Treasury and the disbursement of funds for program purposes by a state. The Act also specifies approved methods states may use to draw federal funds and addresses the calculation of interest liabilities. The CMIA became effective for the State of Minnesota on July 1, 1993. The Department of Finance is responsible for overseeing the state's compliance with the CMIA.

The State of Minnesota entered into an agreement with the U.S. Treasury that indicates which federal programs are subject to the CMIA. This agreement outlines the funding techniques to be applied to the programs. When the state and the federal government follow an approved method, neither will incur an interest liability. However, the federal government will incur an interest liability to the state if there is a delay in sending federal funds to the states. The state incurs a liability if the federal funds are drawn prior to when they are needed to cover program expenditures, based on average clearance days outlined in the Treasury-State agreement.

The Department of Finance has requested that state agencies track the date they requested federal funds, the date they wanted to receive federal funds based on the average clearance day, and the date they actually received the federal funds. At the end of the fiscal year, agencies use this data to calculate any interest liabilities and report them to Finance. The Financial Management Service (FMS), a division of the U.S. Treasury, provided the state with the annualized interest rate to use in the calculation of state and federal interest liability. The Department of Finance then notified state agencies of this annualized rate.

We focused our review of cash management on the following objectives:

- Did the Department of Finance calculate federal and state interest liabilities in compliance with the Treasury-State agreement and federal regulations?
- Did the department submit the annual report timely in accordance with federal regulations?

The methodology used to audit federal cash management included interviewing staff to gain an understanding of how the department calculated interest liabilities and prepared the annual report. We reviewed the documentation submitted by state agencies and determined if the liability calculations complied with the agreement and federal regulations.

While reviewing documentation submitted by the agencies, we found that some agencies calculated the interest liabilities using an incorrect interest rate. As a result, the interest liabilities reported in the annual report were in error. This is discussed further in Finding 3. The department did submit the annual report on a timely basis.

3. The department reported incorrect amounts for federal and state interest liabilities.

Three state agencies used an incorrect interest rate to calculate interest liabilities relating to federal cash management. As a result, the Department of Finance's annual report to the federal government was in error. Using the lower interest rate understated state and federal interest liabilities.

The Financial Management Service (FMS), of the Department of the Treasury, informed the state that the annualized interest rate for fiscal year 1995 was 5.46 percent. The FMS guidelines allow states two options for calculating a daily interest rate. If, as is the case with the State of Minnesota, the Treasury-State agreement specifies the use of business days, then states should divide the annualized rate by 250 days. Therefore, the daily rate for the state was the annualized rate of 5.46 percent divided by 250 or .02184 percent. The Departments of Trade and Economic Development, Economic Security, and Transportation divided the annualized rate by 365 days to arrive at a daily interest rate of .01496 percent.

Agencies that have incurred a state or federal interest liability submitted documentation of their liability calculation to the Department of Finance. The department is responsible to review the documentation and ensure that the calculations are correct. Finance compiled the data and used it to prepare an annual report. Even though three agencies used the incorrect daily interest rate, Finance reported that data on the annual report.

Recommendation

- *The Department of Finance should inform state agencies of the correct daily interest rate and review documentation submitted by agencies to ensure that the interest calculations are correct.*

State of Minnesota
Department of Finance

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March 22, 1996

James R. Nobles
Legislative Auditor
Office of the Legislative Auditor
658 Cedar Street
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Dear Jim:

Thank you for the opportunity to discuss these findings with the staff of your office responsible for the Department of Finance audit. Regular dialogue of this kind is critical to the most efficient and effective financial management for state government.

It is often useful for us to reflect on what we, as a department, have accomplished over the past several years. With the help of the other sponsoring agencies (Administration and Employee Relations) and user agencies, we successfully completed the largest simultaneous systems implementation in the country. As of July 1, 1996, 138 state agencies were transacting business on new accounting, purchasing, payroll and human resources systems.

While some everyday Department of Finance functions during this time period were not completed to our usual professional standards, much, much more was accomplished with reduced resources. The department management team regularly reviewed work priorities in order to assure state business processing during the transition. On the whole, we feel that we made the best possible decisions to support the business functions of the state and protect the state's critical financial controls.

We are now past the initial stages of the systems implementation and will resume normal operating procedures. We recently completed an analysis of internal control procedures in the department, and have implemented a work plan to strengthen state agency skills and remediate weaknesses. Our goal is to be substantially back to normal operations by the end of the biennium.

Recommendation

The department should perform timely reconciliations of the cash and outstanding warrant balances recorded on the state's accounting system to the related State Treasurer's records.

Response

As discussed above, the last two years have been a period of continual and rapid change for the Department of Finance, especially the Accounting and Information Services Divisions.

During this time, staff were often reassigned to ensure proper development, testing and implementation of the new accounting, procurement, payroll and human resources systems. With the many competing priorities and no additional staff, we often made decisions based on the relative balance of business operations and procedures.

During the audit period, while monthly cash reconciliations were not completed on a timely basis, critical controls were maintained over the most significant components of cash transactions -- receipts, disbursements and investments.

We are performing most of the more critical reconciliations on a timely basis. Cash receipts have been reconciled daily since August. Investments, loans and advances are reconciled monthly.

All reconciliations have been given a top priority, especially cash, warrants outstanding and payroll. We recently reassigned three staff full time, and others part time, to those reconciliations. A plan is in place so that all reconciliations, including cash, payroll and warrants outstanding will be current by June 30, 1996.

Recommendation

The Department of Finance should ensure that appropriate transactions are recorded in the accounting system before warrants are released.

Response

The late processing of Department of Revenue refund accounting transactions continues to be a problem. This was a combination of the transition activities in Finance and problems with the Department of Revenue systems.

Revenue recently informed us that they now can provide the accounting transactions on a daily basis. We have given priority to the processing of these transactions. We plan to be current with these transactions by April 15, 1996.

Recommendation

The Department of Finance should establish procedures to verify the accounting system records of bond sale activity to the related bond authorization records.

Response

The department did not make the necessary change to the accounting system to record the transfer of bond proceeds between different bond authorizations. The department did record the changes in its bond proceeds arbitrage tracking system and did maintain proper arbitrage accounting.

The department has established procedures to properly record the transfer of bond proceeds on the accounting system.

Recommendation

The Department of Finance should adjust its current accounting records to correct the erroneous deposit of Reinvest in Minnesota bond proceeds.

Response

The department did deposit bond proceeds in the wrong fund. The department is working with the Legislative Auditor to determine the correct dollar amount, so that an adjustment to the accounting system can be made to adjust the records to properly record the bond proceed deposit.

Recommendation

The department should inform state agencies of the correct daily interest rate and review documentation submitted by agencies to ensure that the interest calculations are correct.

Response

The department will revise the federal cash management reporting instructions and information sent to state agencies to clearly state that 250 business days should be used when calculating the daily interest rate. We will also review all documentation submitted by agencies to ensure that the correct rate is used.

Warmest regards,

Laura M. King
Commissioner