

# **Office of the Attorney General**

## **Financial Audit**

**For the Two Years Ended December 31, 1996**

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**September 1997**

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

**97-48**





STATE OF MINNESOTA

**OFFICE OF THE LEGISLATIVE AUDITOR**

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JAMES R. NOBLES, LEGISLATIVE AUDITOR

Senator Deanna Wiener, Chair  
Legislative Audit Commission

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, 1995, through December 31, 1996, as further explained in Chapter 1. Our audit scope included: receipts for services, fines, and restitutions; federal grants; payroll; and other administrative expenditures. The following Summary highlights the audit objectives and conclusions. We discuss our audit objectives and conclusions more fully in the individual chapters of this report.

We conducted our audit in accordance with generally accepted auditing standards and *Governmental Auditing Standards*, as issued by the Comptroller General of the United States. 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 Attorney General complied with provisions of laws, regulations, contracts, and grants that are significant to the audit. Management of the Office of the Attorney General 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 Attorney General. This restriction is not intended to limit the distribution of this report, which was released as a public document on September 5, 1997.

James R. Nobles  
Legislative Auditor

John Asmussen, CPA  
Deputy Legislative Auditor

End of Fieldwork: June 27, 1997

Report Signed On: August 28, 1997



# SUMMARY

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## Office of the Attorney General

### Financial Audit

For the Two Years Ended December 31, 1996

Public Release Date: September 5, 1997

No. 97-48

#### Background Information

The Office of the Attorney General was established by Article V of the constitution of the state of Minnesota. Hubert H. Humphrey III is the current 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.

#### Objectives and Conclusions

The objectives of our audit were to gain an understanding of the internal control structure over the accounting and reporting of financial activities of the agency and to determine if the Office of the Attorney General complied with material finance-related legal provisions. The areas covered by our audit were attorney general funding sources, fines and restitutions, federal grants, payroll, and other administrative expenditures for the period January 1, 1995, through December 31, 1996.

The Attorney General's Office (AGO) properly collected, deposited, and recorded revenues for attorney general services, fines, and restitutions on the state's accounting system. The AGO did not, however, have a sufficient process for recovering its full cost of services for non general funded activities. Also, the AGO did not have an adequate separation of duties over depositing fines and restitutions. In addition, the AGO did not follow up on accounts receivable.

The AGO properly collected, deposited, and recorded federal grant revenues into the state's accounting system. However, it continued to hold a portion of program income due to the U.S. Department of Health and Human Services. The AGO also did not submit its fiscal year 1996 State Medicaid Fraud Control Units final report within the required time.

The AGO adequately supported and accurately recorded its payroll and other administrative expenditures in the state's accounting records. However, the AGO did not adequately verify the accuracy of its payroll or control system access to separate its payroll and personnel functions. The AGO was in compliance with material finance-related legal provisions and bargaining unit agreements with respect to the items tested.



# 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
Sonya Hill, CPA	Auditor
Eric Wion	Auditor
Rick Weinmeyer	Auditor
Susan Kong	Auditor
Laura Dombeck	Auditor

### Exit Conference

The following staff from the Office of the Attorney General participated in the exit conference held on August 20, 1997:

Lee Sheehy	Chief Deputy Attorney General
Rebecca Spartz	Director of Administration
Terry Pohlkamp	Fiscal Services/Systems Manager





# Office of the Attorney General

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## Chapter 1. Introduction

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The Office of the Attorney General (AGO) was established by Article V of the constitution of the state of Minnesota. 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 Attorney General is Hubert H. Humphrey III.

Table 1-1 provides a summary of the AGO's financial activity for fiscal year 1996.

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**Table 1-1**  
**Summary of General Fund Financial Activity**  
**Fiscal Year 1996**

	<u>Amount</u>
Revenues:	
State Appropriation	\$22,649,000
Partner Agency Agreements	7,217,672
Fines and Restitutions	547,102
Other Sources	<u>309,388</u>
Total	<u>\$30,723,162</u>
Expenditures:	
Payroll	\$23,840,584
Rent	2,217,888
Professional/Technical Services	678,987
Supplies	1,298,898
Other	<u>1,372,426</u>
Total	<u>\$29,408,783</u>

Note: During fiscal year 1996, the Department of Finance collected \$5,712,335 in attorney general billings that agencies paid from nongeneral fund sources and deposited them to the General Fund as nondedicated revenue, as required by Minn. Stat. Section 8.15, Subd. 5.

Source: Minnesota Accounting and Procurement System.

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**Office of the Attorney General**

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## Chapter 2. Attorney General Funding Sources and Revenue

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### *Chapter Conclusions*

*The Attorney General's Office (AGO) properly collected, deposited, and recorded revenues for attorney general services, fines and restitutions on the state's accounting system. The AGO did not, however, have a sufficient process for recovering its full cost of services for non general funded activities. Also, the AGO did not have an adequate separation of duties over depositing fines and restitutions. In addition, the AGO did not follow up on accounts receivable.*

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The funding of attorney general services has undergone significant changes in the past several years. Minn. Laws 1993 Chapter 192, Section 11, Subd. 7, directed the attorney general to establish a task force to review and make recommendations to the Legislature regarding funding options to pay for legal services provided by the AGO. As a result of the task force report issued on March 1, 1994, the 1994 Legislature amended Minn. Stat. Section 8.15 governing attorney general services. Effective July 1, 1995, Minn. Stat. Section 8.15, Subd. 3, provided that the AGO may "enter into agreements with executive branch agencies, political subdivisions, or quasi-state agencies for legal services." In addition, "funds received under this subdivision must be deposited in the General Fund and are appropriated to the attorney general."

Effective July 1, 1996, the Legislature added Subdivision 5 to Minn. Stat. Section 8.15. It provided the following: "State agencies receiving legal services from the attorney general for non general funded activities shall reimburse the full cost of those services to the General Fund based on periodic billings prepared by the attorney general. Payments must be made to the attorney general for deposit to the General Fund as a nondedicated receipt."

The Attorney General had agreements in place with eight departments during fiscal year 1996. The agreements were established between the "partner" agencies and the AGO based on projected hours of services for the coming year at an AGO calculated hourly rate. Under these agreements, the AGO provided services and the partner agencies would transfer funds out of their appropriations to the AGO on a quarterly basis. A partner agency seeks funding for legal services within its biennial budget request. The AGO seeks appropriations within its budget request to fund all other state legal services.

The AGO had a billing system in place during the audit period to record attorney hours worked. AGO staff enter detailed information from attorney timesheets into the billing system. The billing system generates a detailed invoice showing the hours worked on a particular project. The AGO's billing rate during the audit period was \$62 per hour for attorneys and \$46 per hour for legal assistants.

## Office of the Attorney General

As shown in Table 1-1, the AGO received General Fund appropriations of approximately \$22.6 million during fiscal year 1996. During fiscal year 1996, the AGO also received approximately \$7.2 million in funding from partner agency agreements. In addition, the AGO collected fines and restitutions from judgments resulting from cases prosecuted by the attorney general. The AGO deposited these receipts as non dedicated receipts in the state's General Fund. Total fines and restitutions collected during fiscal year 1996 were approximately \$1.2 million of which \$547,102 was deposited to the General Fund.

## Audit Objectives and Methodology

Our review of AGO funding sources and revenues focused on the following questions:

- Did the AGO design and implement internal controls to provide reasonable assurance that revenues for attorney general services, fines, and restitutions were properly collected and accounted for in the state's accounting system?
- Did the AGO comply with material finance-related legal provisions?

To answer these questions, we interviewed agency employees to gain an understanding of the internal controls over revenues generated under the partner agreements, billings to non partner agencies, and fines and restitutions. We reviewed partner agency agreements and state accounting records to determine if the AGO received all the revenues it was entitled to receive under the agreements. We also reviewed AGO records to determine that it properly collected and accounted for all fines and restitutions.

## Conclusions

The Attorney General's Office (AGO) properly collected, deposited, and recorded revenues for attorney general services, fines, and restitutions on the state's accounting system. The AGO did not, however, have a sufficient process for recovering its full cost of services for non general funded activities as discussed in Finding 1. Also, the AGO did not have an adequate separation of duties over depositing fines and restitutions as discussed in Finding 2. In addition, the AGO did not follow up on accounts receivable as discussed in Finding 3.

### **1. The AGO had not established a sufficient process to ensure that it recovered its full cost for services under Minn. Stat. Section 8.15, Subd. 5.**

As of July 1, 1996, the AGO had not reviewed its billing rate to ensure that it sufficiently recovered the full cost of legal services provided to non general funded programs. In fact, during fiscal year 1997, the AGO billed state agencies \$62 per hour for attorneys and \$46 per hour for legal assistants and investigators. These rates, based on a July 1993 consultant's report, had been in effect since July 1, 1995.

Beginning in fiscal year 1996, the Department of Finance collected state agency payments for attorney general services through the statewide indirect cost plan. Minn. Stat. Section 16A.127 Subd. 3 provides in part that "agencies are obligated to reimburse the general fund for all statewide indirect costs." Agencies paid for the services based on billings from the AGO.

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Minn. Stat. Section 8.15, Subd. 5, which took effect July 1, 1996, provided that:

State agencies receiving legal services from the attorney general for nongeneral funded activities shall reimburse the full cost of those services to the general fund based on periodic billings prepared by the attorney general. Payment must be made to the attorney general for deposit to the general fund as a nondedicated receipt. The attorney general, in consultation with the commissioner of finance, shall develop reimbursement policies and procedures related to legal services. (emphasis added)

However, the AGO did not develop a billing rate for fiscal year 1997 enabling it to recover the full cost of legal services provided to state agencies, but continued to use the existing rates. Although this provision applies only to rates for non general funded accounts, the AGO charges the same rates for partner agency agreements.

AGO officials told us that they must develop rates in advance of each biennial budget to accommodate state agency budget requests and therefor must base the rates on projected costs for the upcoming biennium. However, for our audit period we saw no evidence that the rates were based on the projected costs for the biennium. Documents provided by the AGO indicate that the consultant recommended that the rates be increased to \$61.06 per hour for attorneys and \$45.20 per hour for legal assistants and investigators effective for fiscal year 1994.

For fiscal year 1998, the AGO began to analyze its billing rate and proposed new rates of \$76.50 per hour for attorneys and \$58 per hour for legal assistants and investigators. There was, however, a difference of opinion between the AGO and the Department of Finance (DOF) in how each interpreted the meaning of "full cost of services" within Minn. Stat. Section 8.15, Subd. 5. There was also disagreement about what costs should be used or considered in the determination of a billing rate. Although the law empowered the AGO to charge the necessary rates, ultimately the AGO informed DOF that it would begin billing agencies at \$70 per hour for attorneys and \$55 per hour for legal assistants and investigators for services provided in fiscal year 1998.

### *Recommendation*

- *The AGO should continue to work with DOF to establish a process to determine an appropriate billing rate that ensures the full recovery of legal service costs.*

## **2. The AGO did not adequately separate duties over fines and restitutions.**

The AGO did not adequately separate fine and restitution depositing duties. One individual in the accounting section was responsible for preparing deposits and entering deposit information in the Minnesota Accounting and Procurement System. This same individual also reconciled receipt reports to the receipt log. These duties are incompatible and the same person should not perform them. To effectively control receipts, the AGO could perform an independent reconciliation of deposits to the receipt log. The lack of an independent reconciliation increases the chance of errors and irregularities occurring and going undetected.

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### *Recommendation*

- *The AGO should ensure that there is an adequate separation of duties for fines and restitutions by having someone independent of the deposit process reconcile deposits to the check log.*

### **3. The AGO did not adequately follow up on accounts receivable.**

The AGO did not send follow up notices to agencies that did not pay their attorney general bill. The AGO billed agencies for legal services provided. Agencies were required to pay for legal services provided to them for non general funded programs. According to the Minnesota Accounting and Procurement System policy # 0304-03 (Attorney General Services), the Department of Finance (DOF) was responsible for collecting receipts from the agencies during fiscal year 1996. Minn. Stat. Section 8.15, Subd. 5, shifted the responsibility back to the AGO in fiscal year 1997. The AGO provided DOF with its 1995 fiscal year accounts receivable balance of approximately \$1.26 million. However, neither AGO nor DOF followed up on the fiscal year 1995 receivables. In fiscal year 1996, DOF collected the AGO's billings. Total billings for fiscal year 1996 were approximately \$7.1 million, of which DOF collected approximately \$5.7 million. Additionally, when the AGO resumed collection responsibility in fiscal year 1997, it did not establish account receivable information for fiscal year 1996 billings. Minn. Stat. Section 8.15, Subd. 5, provided in part that "the attorney general, in consultation with the commissioner of finance, shall develop reimbursement policies and procedures related to legal services."

### *Recommendation*

- *The AGO should work with DOF to develop procedures for following up on accounts receivable. The AGO should also pursue collection of fiscal years 1995 and 1996 accounts receivable.*

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## Chapter 3. Federal Grants

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### *Chapter Conclusions*

*The AGO properly collected, deposited, and recorded federal grant revenues into the state's accounting system. However, it continued to hold a portion of program income due to the U.S. Department of Health and Human Services. Also, AGO did not submit its fiscal year 1996 State Medicaid Fraud Control Units final report within the required time.*

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The AGO received \$726,752 in federal grant revenues in fiscal year 1996. We focused our work on the two largest grant programs that accounted for approximately 87.6 percent of the total federal revenue received by the AGO in fiscal year 1996. The largest grant was the State Medicaid Fraud Control Units grant (CFDA 93.775) from which the AGO received approximately \$563,717 in fiscal year 1996. The grant provided funding for the investigation and prosecution of fraud in statewide Medicaid programs. The second grant was the Drug Control and Systems Improvement grant (CFDA 16.579) from which the AGO received approximately \$73,035 in fiscal year 1996. This grant provided funds for prosecuting narcotics crimes.

### **Audit Objectives and Methodology**

Our review of federal revenue addressed the following questions:

- Did the AGO design and implement internal controls to provide reasonable assurance that federal revenue was properly recorded in the accounting records?
- Did the AGO comply with material finance-related legal provisions?

To answer these questions, we interviewed agency personnel to gain an understanding of the controls over federal revenue. We reviewed the grant agreements and reports as well as federal draw down information to determine whether the AGO accurately recorded federal revenue in the state's accounting records and whether the AGO complied with material finance-related legal provisions. These federal programs were not major programs, and our work on these non major federal grants was less than that required for major Single Audit programs.

### **Conclusions**

The AGO properly collected, deposited, and recorded federal grant revenues into the state's accounting system. It did not, however, return a portion of the federal share of program income in the State Medicaid Fraud Control Units grant. The AGO also failed to submit its fiscal year 1996 State Medicaid Fraud Control Units final report within the required time.

## Office of the Attorney General

### **4. The AGO continues to hold a portion of program income due to the U.S. Department of Health and Human Services.**

The AGO retained a portion of the federal share of program income in the State Medicaid Fraud Control Units program. The AGO received a \$450,000 award for reimbursement of prosecution costs in a 1993 Medicaid fraud settlement. Federal regulations consider this \$450,000 program income. According to CFR 45, Sec. 92.25, program income may be used, when authorized, to meet the cost sharing or matching requirement of the grant program. The U.S. Department of Health and Human Services granted the Office of the Attorney General the authority to use a portion of the federal share of program income to offset state match requirements for federal fiscal year 1994. The AGO reported approximately \$211,000 in state share for federal fiscal year 1994.

The State Medicaid Fraud Control Units grant agreement, under which the program income was generated, stipulated that the U.S. Department of Health and Human Services would fund 75 percent of program expenditures and the state would fund 25 percent. It was unclear whether the \$450,000 in program income should be split 75 percent federal and 25 percent state before, or after, applying the \$211,000 to state match. For example, if program income is split prior to the federal share being used to offset state match, then the remaining federal share to be returned is approximately \$126,500. However, if program income is used to offset state match prior to being split, the remaining federal share to be returned is approximately \$179,250. The AGO to date has returned approximately \$76,000 to the U. S. Department of Health and Human Services. It has sought the advice of this federal agency and attempted to determine the remaining balance due, but has not yet reached a final resolution. Depending on the method used to split program income, according to our calculations, the federal portion of program income remaining to be returned to the U.S. Department of Health and Human Services is either \$50,500 or \$103,250.

#### *Recommendation*

- *The AGO should continue to work with the U. S. Department of Health and Human Services to determine the appropriate amount of program income to be returned.*

### **5. The AGO did not submit the final report for the States Medicaid Fraud Control Units grant in a timely manner.**

The AGO did not submit its fiscal year 1996 final financial report for the State Medicaid Fraud Control Units grant in accordance with grant guidelines. Grant provisions require that grantees submit a final report within 90 days after the end of the grant period. The fiscal year 1996 grant period ended September 30, 1996. The AGO did submit preliminary reports in October and December 1996. However, as of June 26, 1997, the AGO had not submitted the final report. Failure to comply with grant guidelines can result in the loss of federal funding.

#### *Recommendation*

- *The AGO should ensure that all required reports are filed timely.*



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## Chapter 4. Payroll and Administrative Expenditures

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### *Chapter Conclusions*

*The AGO adequately supported and accurately recorded its payroll and other administrative expenditures in the state's accounting records. However, the AGO did not adequately verify the accuracy of its payroll or control system access to separate its payroll and personnel functions. The AGO was in compliance with material finance-related legal provisions and bargaining unit agreements with respect to the items tested.*

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The AGO expended approximately \$29.4 million during fiscal year 1996. The largest expenditure for the AGO during the audit period was payroll, which accounted for approximately 81 percent of total expenditures. The AGO employed approximately 500 employees, of which approximately 75 percent were unclassified. Other expenditures covered by the audit were rent, supplies, and professional/technical services. The AGO spent approximately \$2.2 million on rent, \$1.3 million on supplies, and approximately \$700,000 on professional/technical services during fiscal year 1996.

### **Audit Objectives and Methodology**

Our review of AGO payroll and other administrative expenditures focused on the following questions:

- Did the AGO design and implement internal controls to provide reasonable assurance that payroll and other administrative expenditures were adequately supported and accurately recorded in the accounting records?
- Did the AGO comply with material finance-related legal provisions and applicable bargaining unit agreements?

To meet these objectives, we interviewed AGO employees to gain an understanding of the controls over payroll and other administrative expenditures. We reviewed a sample of payroll, rent, supplies, and professional/technical services expenditure transactions to determine if they were properly authorized, processed, and recorded. We also reviewed expenditures to determine if the AGO complied with material finance-related legal provisions and bargaining unit agreements.

### **Conclusions**

The AGO adequately supported and accurately recorded its payroll and other administrative expenditures in the state's accounting records. However, the AGO did not adequately verify the

## Office of the Attorney General

accuracy of its payroll as discussed in Finding 7 or control system access to separate its payroll and personnel functions as discussed in Finding 8. We also concluded that the AGO was in compliance with material finance-related legal provisions and bargaining unit agreements with respect to the items tested.

### **6. The AGO did not adequately verify the accuracy of its payroll.**

The AGO did not independently review the payroll register and payroll posting audit trail reports as required by Department of Finance policies. Department of Finance operating policy and procedure, PAY0028, requires agencies to document and review the payroll register each pay period. This review is necessary to ensure employees are paid for the correct hours at an appropriate rate and any necessary adjustments were made. Furthermore, the review should be performed by someone independent of the payroll process. The AGO cannot assure itself that it accurately processed all payroll without reviewing the payroll register each pay period.

#### *Recommendation*

- *The AGO should ensure that an independent review of the payroll register is performed each pay period.*

### **7. The AGO did not adequately separate its payroll and personnel functions.**

The AGO did not adequately separate the payroll and personnel functions. Four AGO employees had access to both the human resources and payroll processing functions in the state's payroll system (SEMA4). Additionally, one employee who no longer needed access still had access to the payroll system. Finally, one employee continued to have access to the system one year after transferring to a new division where this access was not required. To maintain effective controls over the payroll process, the personnel and payroll functions must be separate, including system access for the employees of the sections. Without an adequate separation, the AGO cannot assure itself that errors and irregularities will be detected.

#### *Recommendations*

- *The AGO should ensure that the security clearances granted to employees do not adversely affect internal controls.*
- *The AGO should periodically review security reports to ensure that employees only have access to systems necessary to perform their jobs.*



# STATE OF MINNESOTA

OFFICE OF THE ATTORNEY GENERAL

HUBERT H. HUMPHREY III  
ATTORNEY GENERAL

August 27, 1997

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Mr. James Nobles  
Legislative Auditor  
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**HAND DELIVERED**

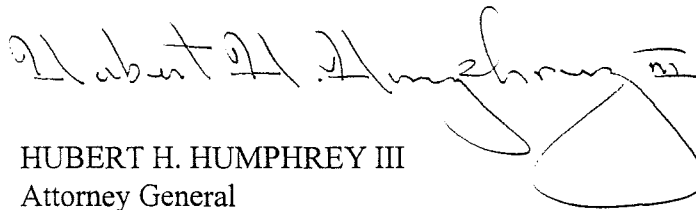
Dear Mr. Nobles:

Thank you for the opportunity to respond to the recommendations provided in your recent financial audit of the Attorney General's Office. This audit covered activities in the AGO during the two-year period ending December 31, 1996.

Enclosed are my Office's responses to the various recommendations your auditors made. As recommended, we have implemented a number of the suggested changes in the accounting and payroll areas.

It has been a pleasure for our staff to work with your audit team. If we can be of further assistance, please contact me.

Best regards,

  
HUBERT H. HUMPHREY III  
Attorney General

## AUDIT REPORT RESPONSE

### Chapter 2. Attorney General Funding Sources and Revenue

**Conclusion No. 1:** The AGO had not established a sufficient process to ensure that it recovered its full cost for services under Minn. Stat. § 8.15, subd. 5.

**Recommendation:** *The AGO should work with DOF to establish a process to determine an appropriate billing rate that ensures the full recovery of legal service costs.*

**AGO RESPONSE:** Beginning July 1, 1995, Minn. Stat. § 8.15 required the Attorney General's Office, in consultation with the Department of Finance, to develop a fee schedule for FY96-97 used to implement the new funding system for legal services (Laws 1994, Ch. 636, Art. 10, Sec. 2). AGO billing rates were reviewed in 1994 by the AGO's Director of Finance in preparing for the next biennium. In a letter to then-Commissioner Gunyou, the AGO proposed fees for FY 95-96. (Letter to Commissioner Gunyou attached). The letter begins with a reference to a consultant's report prepared in July 1993, and recommends retaining FY 94-95 rates which were \$62 per hour for attorneys and \$46 per hour for legal assistants. We find no response in our files objecting to those rates which, we believe, were incorporated into agencies' budgets with DOF's approval. Please remember that DOF requests rates well in advance of the fiscal years in which they are used so agencies take rates into account when preparing their biennial budgets.

The AGO conducted an internal analysis of rates in 1996 in order to develop appropriate billing rates for FY98-99. This analysis led the AGO to propose rates of \$76 for attorneys and \$58 for legal assistants in FY 98 and \$78 for attorneys and \$60 for legal assistants in FY 99. These rates allowed the AGO to recapture its full cost of providing legal services. The proposal was reviewed by the Department of Finance which took issue with the recommended rates. Numerous meetings and discussions followed. Because DOF refused to approve these rates for use by the agencies in setting their appropriations and agencies were unable to complete budget submission without some established rate for legal services, the AGO and DOF compromised with rates of \$70 for attorneys and \$55 for legal assistants for FY 98 only. The AGO referenced this "agreement" in a memo to DOF dated February 14, 1997 (attached). The memo noted that the AGO would work with DOF to develop rates for FY99 that would "accurately and fully reflect the true cost of AGO services."

**Conclusion No. 2:** The AGO did not adequately separate duties over fines and restitution's.

**Recommendation:** *The AGO should ensure that there is an adequate separation of duties for fines and restitutions by having someone independent of the deposit process reconcile deposits to the check log.*

**AGO RESPONSE:** Current position descriptions for the Account Clerk and the Accounting Officer Intermediate (dated March 24, 1995) state that the Account Clerk will make and verify deposits. The Accounting Officer Intermediate is assigned the duty of auditing these deposits. AGO staff will monitor assignments to make certain that this process continues to be followed.

**Conclusion No. 3:** The AGO did not adequately follow up on accounts receivable.

***Recommendation:*** *The AGO should work with DOF to develop procedures for following up on accounts receivable. The AGO should also pursue collection of Fiscal Years 1995 and 1996 accounts receivable.*

**AGO RESPONSE:** During fiscal years 95-97 billing procedures for legal services changed a number of times resulting in confusion among all agencies involved in the billing, payment and collection process. The billing seems stabilized at this point. The AGO will provide agencies with invoice, and will follow up, in writing, when invoices are not paid promptly. The AGO and the Department of Finance have met about developing procedures for this process and the new procedures will take effect in FY98. The AGO will work with DOF to collect any accounts receivable from fiscal years 1995 and 1996.

### **Chapter 3. Federal Grants**

**Conclusion No. 4:** The AGO continues to hold a portion of program income due to the U.S. Department of Health and Human Services.

***Recommendation:*** *The AGO should continue to work with the U.S. Department of Health and Human Services to determine the appropriate amount of program income to be returned.*

**AGO RESPONSE:** Although the AGO received reimbursement of prosecution costs in a 1993 Medicaid fraud settlement in July 1993, the AGO has actively pursued the proper disposition of these funds. Various phone calls and letters have been written to the U.S. Department of Health and Human Services since July 1993 to bring this to closure.

The auditors have calculated amounts of \$50,500 or \$103,250 that may have to be returned to the U.S. Department of Health and Human Services, but we do not concur with these amounts. The AGO could potentially retain all the remaining funds from this award settlement.

The AGO agrees to continue working with the U.S. Department of Health and Human Services to resolve this issue.

**Conclusion No. 5:** The AGO did not submit the final report for the States Medicaid Fraud Control Units grant in a timely manner.

***Recommendation:*** *The AGO should ensure that all required reports are filed timely.*

**AGO RESPONSE:** The AGO disagrees with the finding that the AGO did not submit the final report for the States' Medicaid Fraud Control Units grant in a timely manner in accordance with grant guidelines. We believe this finding is a result of an auditor's interpretation of the reports the AGO has submitted. The AGO interprets this differently. Specifically, the final report for this grant was filed on December 31, 1996, which is within 90 days after the end of the grant period. Although this grant was not closed out due to some potential outstanding obligations, the required reports are being filed timely. The AGO will work to close out grants that do not have any outstanding obligations.

#### **Chapter 4. Payroll and Administrative Expenditures**

**Conclusion No. 6:** The AGO did not adequately verify the accuracy of its payroll.

***Recommendation:** The AGO should ensure that an independent review of the payroll register is performed each pay period.*

**AGO RESPONSE:** Payroll registers and payroll posting audit trail reports were routinely reviewed each pay period through mid-1994. This practice lapsed at that time and was reinstated in 1996.

**Conclusion No. 7:** The AGO did not adequately separate its payroll and personnel functions.

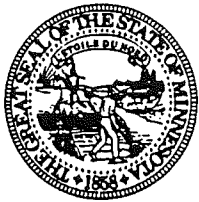
***Recommendations:***

*The AGO should ensure that the security clearances granted to employees do not adversely affect internal controls.*

*The AGO should periodically review security reports to ensure that employees only have access to systems necessary to perform their jobs.*

**AGO RESPONSE:** The AGO has updated security clearances so that personnel and accounting staff have only the access they should have to MAPS and SEMA4. This is a practice that will be continued on a routine basis.

The employee noted in the finding who had access to the two systems transferred to another section of the AGO. Although her security profile was not terminated promptly, she did not have access to either system in the new section.



# STATE OF MINNESOTA

## OFFICE OF THE ATTORNEY GENERAL

HUBERT H. HUMPHREY III  
ATTORNEY GENERAL

SUITE 212  
325 PARK STREET  
ST. PAUL, MN 55103-2106  
TELEPHONE: (612) 297-3963

September 7, 1994

Mr. John Gunyou  
Commissioner  
Department of Finance  
4th Floor Centennial Building  
658 Cedar Street  
St. Paul, Minnesota 55155

RE: Rates for Legal Services, FY96-97

Dear Commissioner Gunyou:

Beginning July 1, 1995, Minnesota Statutes 8.15 will require the Attorney General, in consultation with the Commissioner of Finance, to develop a fee schedule to be used in implementing the new funding system for legal services (Laws 1994, Ch. 636, Art. 10, Sec. 2). In planning for the new system, we have selected rates for the eight partner agencies to use while we developed our recommendation to you. This letter is our formal proposal of those rates for the FY96-97 biennium.

In July 1993, Kenneth Hoffman worked under contract with the Attorney General's Office (AGO) to develop a methodology by which we could use our budgeted and actual costs as the basis for the rates we charge to client agencies. He used actual FY92 data to propose new rates for FY94 of \$45.20 per hour for legal assistants and \$61.06 per hour for attorneys. Enclosed please find two (2) copies of his final report.

We did not increase our rates at that time because under the current funding system, an increase would have caused financial difficulties for the state agencies receiving AGO services. We do propose that the increased rates take effect for FY96-97, however, and the eight partner agencies are using these rates as they build their budget estimates for next biennium.

The rates are:

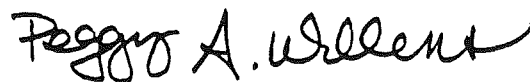
<u>Staff Group</u>	<u>Current Rate</u>	<u>Proposed Rate</u>
Legal Assistants	\$41.00 per hour	\$46.00 per hour
Attorneys	\$51.00 per hour	\$62.00 per hour

I have rounded the rates upward from the original Hoffman figures, both to reflect two additional years' worth of inflation and to simplify the arithmetic involved. We propose that the rates be in effect from July 1, 1995 through June 30, 1997 for use in the budgeting and indirect cost allocation processes.

Mr. John Gunyou  
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Please feel free to contact me at 297-1143 with any questions or concerns you might have about this rate proposal.

Sincerely,

A handwritten signature in black ink that reads "Peggy A. Willens". The signature is fluid and cursive, with the first name "Peggy" being more prominent.

PEGGY A. WILLENS  
Director of Finance

Enclosures

cc (w/o encl):

John R. Tunheim  
James Kirkpatrick III  
Lynette Seal  
Mike Rajacich  
Bruce Reddemann

willens.ah1



STATE OF MINNESOTA

Office of the Attorney General

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TO : PEGGY INGISON  
DAVE JOHNSON  
Department of Finance

DATE : February 14, 1997

FROM : TOM TRIPLETT  
Deputy Counsel and  
Chief Operating Officer

PHONE : 282-5504 (Voice)  
282-2525 (TTY)

SUBJECT : AGO BILLING RATE

Thanks for meeting with Terry Pohlkamp, Tom Sullivan and me on Wednesday. I appreciate very much your diligence in reaching accord with us. The following summarizes our intentions on this issue. We will begin advising our clients next week.

1. Effective for FY98, the AGO billing rates will be \$70 for attorneys and \$55 for legal assistants.
2. For the next biennium, the partner agencies will commit to use at least 90% of the hours they contracted for under our current agreements. AGO and the partner agencies will work together to identify and implement ways to reduce the amount and cost of legal services consumed. DOF will support AGO in these requests.
3. AGO and DOF agree to work together as soon as possible after 7/1/97 to reach consensus on a procedure for AGO billing rates that will accurately and fully reflect the true cost of AGO services. This new procedure will be used to assist AGO in setting the billing rate for FY99 and beyond.
4. In respect to the remaining areas of disagreement (the inclusion in the AGO base of \$2 million from the FY96-97 appropriation and the inflation adjustment for the partner agency contracts), DOF and AGO "agree to disagree." DOF understands that AGO will continue to seek administration and legislative support for its positions on these two issues.

AG:21051 v3