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MINNESOTA STATE SENATE

MANAGEMENT LETTER
(Including Communication to Rules
and Administration Committee)

JUNE 30, 2006



Minnesota State Senate
State of Minnesota
St. Paul, Minnesota

In planning and performing our audit of the financial statements of the Minnesota State Senate, State of Minnesota (Senate) for the years ended June 30, 2006 and 2005, we considered the Senate's internal control to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The following comments are related to procedural matters which can be implemented by the Senate's staff. As always, you should consider the costs of making improvements to the expected benefits. We previously reported on the Senate's internal control in our report dated November 3, 2006. This letter does not affect our report dated November 3, 2006, on the financial statements of the Minnesota State Senate.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various Senate personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This report is intended solely for the information and use of management and the Senate and is not intended to be, and should not be, used by anyone other than the specified parties.

Virchow Krause & Company, LLP

Minneapolis, Minnesota
November 3, 2006

PRIOR YEAR COMMENTS

Cross-Training and Transition Planning

We would like to take this opportunity to stress the importance of cross-training within the fiscal services office. Optimizing staff resource dollars is a crucial component of effective management in any organization. As salary and benefits costs continue to increase, protecting the fiscal investment in staff resource allocations is vital.

We believe that the use of effective cross-training would provide additional internal control within the fiscal services office. We understand that each fiscal services staffer performs various parts of the payroll or account payable processes. It is extremely important to know that, if needed, the payroll assistant could perform all the duties of the payroll supervisor and the accounts payable assistant could perform all the duties of the accounts payable supervisor. Then, if something unforeseen should happen, fiscal related services of the Senate would continue without interruption.

Transition planning is also an important area to consider when evaluating your staffing situation. If there are key positions in which you anticipate turnover, it is important to have a proactive plan of action. Often, this is an excellent opportunity to redesign the current organizational structure or to realign key tasks and core process workflow. Any change in staff responsibilities should consider the need for additional employee training.

By taking a proactive approach to optimizing staff resources and properly planning for transition periods, you can maximize your investment in your employees, which will protect your fiscal investment in overall staff resources. Should you have questions or need more information, we are available to assist you.

Status: While we understand there has been some progress in this area, we encourage you to make effective cross-training for the payroll assistant a priority.

Senator Phone Bills

We noted during our testing for the year ended June 30, 2005 that there were several Senator long distance telephone bills that were not signed by them as required by law as evidence of approval.

Status: During our current year testing of Senator's phone bills, we noted that thirteen Senators each had at least one month of long distance phone bills that had not been approved.

Reconciliations

During the audit for the year ended June 30, 2005, we noted differences between the Senate's control accounts and Department of Finance (DOF) records as well as differences between the Senate's control accounts and its subsidiary records. During the course of our audit fieldwork, these differences were resolved.

These two types of reconciliations (control accounts to DOF and control accounts to subsidiary records) should be done each month to insure that the accounting records maintained by the Senate and used to prepare reports for management are accurate. If there are differences noted in either of these reconciliations, the reasons should be found immediately, with appropriate corrections made.

PRIOR YEAR COMMENTS (cont.)

Reconciliations (cont.)

We are available to provide assistance with reconciling the control accounts to subsidiary records. Please let us know if you would like some specific guidance for this process.

Status: Although we noted a similar problem during our audit fieldwork for the year ended June 30, 2006, it appears that monthly reconciliations are being completed and much of the current year difference related to the accounting for carryover monies.

Housing Allowance

During our audit testing for the year ended June 30, 2005, we selected various disbursements charged to the Senators' housing allowance.

Among other things, these disbursements were reviewed to ensure that Senators were being paid according to the leases they held that pertained to the period being paid for and that the disbursements were in accordance with the policies approved by the Senate.

All the housing allowance disbursements we tested met these criteria.

Status: All the housing allowance disbursements tested for the year ended June 30, 2006 met the above criteria.

COMMUNICATION TO THE RULES AND ADMINISTRATION COMMITTEE

Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of the Minnesota State Senate. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Minnesota State Senate's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

COMMUNICATION TO THE RULES AND ADMINISTRATION COMMITTEE (cont.)

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Minnesota State Senate are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the Minnesota State Senate during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Minnesota State Senate's financial reporting process. Matters underlying adjustments proposed by the auditor could potentially cause future financial statements to be materially misstated. In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Minnesota State Senate, either individually or in the aggregate, indicate matters that could have a significant effect on the Minnesota Senate's financial reporting process.

Certain audit and bookkeeping adjustments we prepared were included in your financial statements. The following summarizes audit adjustments, we prepared:

	<u>Amount</u>
Adjustments to accrued payroll	\$ (382,065)
Adjustments to accounts payable and prepaid items	188,266

In addition, an uncorrected misstatement for an invoice expensed in the prior fiscal year when \$12,857 of the invoice relates to the current and future fiscal years was noted. Management has determined that the effect of this uncorrected misstatement is immaterial to the financial statements taken as a whole.

COMMUNICATION TO THE RULES AND ADMINISTRATION COMMITTEE (cont.)

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Minnesota State Senate's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.