MINNESOTA STATE SENATE

MANAGEMENT LETTER

(Including Communication to Rules and Administration Committee)

June 30, 2009

BAKER TILLY

Baker Tilly Virchow Krause, LLP
225 S Sixth St, Ste 2300
Minneapolis, MN 55402-4661
tel 612 876 4500
fax 612 238 8900
bakertilly.com

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) as of and for the years ended June 30, 2009 and 2008, in accordance with auditing standards generally accepted in the United States of America, we considered its internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of its internal control. Accordingly, we do not express an opinion on the effectiveness of its internal control.

Our consideration of the Minnesota State Senate's internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a material weakness.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the following deficiency constitutes a material weakness.

> Material journal entries were identified and recorded during the current year audit and the financial statements were prepared by the auditor. See the discussion in the attached memorandum under Material Weakness – Internal Control over Financial Reporting.

This communication 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.

Baker Tilly Virchow Krause, LLP

Minneapolis, Minnesota
December 3, 2009

MINNESOTA STATE SENATE

INDEX

MATERIAL WEAKNESS – INTERNAL CONTROL OVER FINANCIAL REPORTING

As in previous years, we are required to comment on your internal controls. In theory, a properly designed system of internal controls consists of enough people, with sufficient training, to process and record monthly transactions, as well as prepare a complete set of annual financial statements. However, while most staff of organizations your size do a good job of processing and recording monthly transactions, the reality is that very few have the background, training or time needed to prepare annual financial statements.

The definition of a material weakness in internal control includes consideration of the year end financial reporting process including the preparation of financial statements. In order for your organization to avoid this type of material weakness, the system of internal controls would need to be able to accomplish the following:

1. Maintain the Senate's books and records in such a condition that the auditor is not able to identify any material journal entries as a result of our audit procedures.

2. Be capable of preparing a complete set of year end financial statements in such a condition that the auditor is not able to identify any material changes as a result of the audit. A complete set of financial statements include the statements and footnote disclosures.

This high level of internal control over financial reporting can be a difficult task for governments. As opposed to large private companies, most governments operate with only enough staff to process monthly transactions and reports, and often rely on their auditors to prepare the year end entries and financial reporting. As this is the case with your organization, we are now required to inform you that these are material weaknesses in your internal controls.

We welcome any comments or questions you have regarding your system of internal controls.

TWO WAY COMMUNICATION REGARDING YOUR AUDIT

As part of our audit of your financial statements, we are providing communications to you throughout the audit process. Auditing requirements provide for two-way communication and are important in assisting the auditor and you with more information relevant to the audit.

As this past audit is concluded, we use what we have learned to begin the planning process for next year's audit. It is important that you understand the following points about the scope and timing of our next audit:

a. We address the significant risks of material misstatement, whether due to fraud or error, through our detailed audit procedures.

b. We will obtain an understanding of the five components of internal control sufficient to assess the risk of material misstatement of the financial statements whether due to error or fraud, and to design the nature, timing, and extent of further audit procedures. We will obtain a sufficient understanding by performing risk assessment procedures to evaluate the design of controls relevant to an audit of financial statements and to determine whether they have been implemented. We will use such knowledge to:

   > Identify types of potential misstatements.
   > Consider factors that affect the risks of material misstatement.
   > Design tests of controls, when applicable, and substantive procedures.

   We will not express an opinion on the effectiveness of internal control over financial reporting or compliance with laws, regulations, and provisions of contracts or grant programs.

c. The concept of materiality recognizes that some matters, either individually or in the aggregate, are important for fair presentation of financial statements in conformity with generally accepted accounting principles while other matters are not important. In performing the audit, we are concerned with matters that, either individually or in the aggregate, could be material to the financial statements. Our responsibility is to plan and perform the audit to obtain reasonable assurance that material misstatements, whether caused by errors or fraud, are detected.

We are very interested in your views regarding certain matters. Those matters are listed here:

a. We typically will communicate with your top level of management unless you tell us otherwise.
b. We understand that the Rules and Administration Committee has the responsibility to oversee the strategic direction of your organization, as well as the overall accountability of the entity. Management has the responsibility for achieving the objectives of the entity.
c. We need to know your views about your organization's objectives and strategies, and the related business risks that may result in material misstatements.
d. Which matters do you consider warrant particular attention during the audit, and are there any areas where you request additional procedures to be undertaken?
e. Have you had any significant communications with regulators?
f. Are there other matters that you believe are relevant to the audit of the financial statements?

Also, is there anything that we need to know about the attitudes, awareness, and actions of the Senate concerning:

a. The Senate's internal control and its importance in the entity, including how those charged with governance oversee the effectiveness of internal control?
b. The detection or the possibility of fraud?

We also need to know if you have taken actions in response to developments in financial reporting, laws, accounting standards, governance practices, or other related matters, or in response to previous communications with us.

With regard to the timing of our audit, here is some general information. Our final fieldwork is scheduled during the fall to best coincide with your readiness and report deadlines. After fieldwork, we wrap up our audit procedures at our office and may issue drafts of our report for your review. Final copies of our report and other communications are issued after approval by your staff. This is typically 6-12 weeks after final fieldwork, but may vary depending on a number of factors.

Keep in mind that while this communication may assist us with planning the scope and timing of the audit, it does not change the auditor's sole responsibility to determine the overall audit strategy and the audit plan, including the nature, timing, and extent of procedures necessary to obtain sufficient appropriate audit evidence.

We realize that you may have questions on what this all means, or wish to provide other feedback. We welcome the opportunity to hear from you.

GASB STATEMENT NO. 54 – FUND BALANCE REPORTING

The Governmental Accounting Standards Board (GASB) has issued Statement No. 54, which changes governmental financial reporting. These changes will affect your financial statements in the future. The major change is to the terminology used for fund balance reporting. Reserved, unreserved, and designated terms are all being replaced with nonspendable, restricted, committed, assigned, and unassigned terms and definitions.

The GASB made these changes to fund balance reporting to make it easier for the reader of financial statements to determine the various levels of restrictions that may exist for the future use of fund balance. The final standard for these changes was issued in February 2009. The changes are effective for years ending June 30, 2011 and beyond.

PRIOR YEAR COMMENTS

PHYSICAL SECURITY OF FISCAL SERVICES OFFICE

As part of our expanded procedures related to the new risk assessment standards, we inquired about various aspects of security at the Senate. We learned that the Fiscal Services Office was not locked during normal business hours, even on the rare occasions when there are no staff present in the office. Due to the sensitive nature of the information stored in the Fiscal Services Office (i.e. Social Security Numbers, etc.), we recommended keeping the office locked when staff are not present to prevent unauthorized access to Senate records.

Status: We understand from discussions with staff that the Fiscal Services Office is now locked when there are no staff present.

CREATION OF AN ORGANIZATIONAL CHART

One key element of a sound control environment in any organization is establishing clear lines of authority and responsibility. In order to assist Senate staff in fulfilling their duties, we recommended creating a formal organizational chart for distribution to staff.

Status: A formal organizational chart has now been developed.

SENATOR PHONE BILLS

We noted during our testing for the years ended June 30, 2008 and 2007 that there were several Senator long distance telephone bills that were not signed by them as required by law as evidence of approval.

Status: In prior years, Senate staff had kept a record of all phone bills that had been submitted unsigned. Due to an unexpected employee absence, this documentation was not available in the current year. We haphazardly pulled a sample of 12 phone bills to test; all had either been properly approved or had no long distance charges. Upon direction from management, we will continue to test this compliance requirement in future years.

PRIOR YEAR COMMENTS (cont.)

ENTERING OF PAYROLL DATA

The entering of data from the "Personnel Action Notice" form into the Senate's payroll accounting system is currently being performed by staff within the Senate Fiscal Services Office.

To enhance control in this area, we recommend a change in procedure. The Senate should consider changing payroll accounting system access so that only the Human Resource Director or Human Resource Assistant has the ability to enter certain data now included on the "Personnel Action Notice" form, specifically hiring and salary information. Another option would be to have Senate Fiscal Services Office personnel continue to enter this data, but have the Human Resource Director or Human Resource Assistant periodically generate a report of employees and pay rates, or view this data on-line, and compare to the actual "Personnel Action Notice" forms.

Status: Discussions with Senate staff indicate that periodic checks of rates in the payroll system are now being performed; however, documentation of these reviews is not retained. We recommend keeping documentation of the payroll reviews. We also understand that the state of the economy and necessary hiring freezes may limit the ability of the Senate to continue these procedures. The Senate is looking into integrating electronic "Personnel Action Notice" forms with the payroll system. We recommend the Senate continue to work on ways to improve controls over payroll to ensure that this largest expenditure segment for the Senate is properly stated.

COMMUNICATION TO THE RULES AND ADMINISTRATION COMMITTEE

We have audited the financial statements of the Minnesota State Senate for the year ended June 30, 2009, and have issued our report thereon dated December 3, 2009. Professional standards require that we provide you with the following information related to the audit.

OUR RESPONSIBILITY UNDER U.S. GENERALLY ACCEPTED AUDITING STANDARDS AND GOVERNMENT AUDITING STANDARDS

The objective of a financial statement audit is the expression of an opinion on the financial statements. We conducted the audit in accordance with auditing standards generally accepted in the United States of America. These standards require that we plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements prepared by management with your oversight are free of material misstatement, whether caused by error or fraud. Our audit included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit does not relieve management or those charged with governance of their responsibilities.

As part of the audit we obtained an understanding of the entity and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing and extent of further audit procedures. The audit was not designed to provide assurance on internal control or to identify deficiencies in 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.

PLANNED SCOPE AND TIMING OF THE AUDIT

We performed the audit according to the planned scope and timing previously communicated to you in our prior year management letter.

QUALITATIVE ASPECTS OF THE ENTITY'S SIGNIFICANT ACCOUNTING PRACTICES

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. We are not aware of any particularly sensitive accounting estimates utilized by management in its financial statement process.

Financial Statement Disclosures

The disclosures in the financial statements are neutral, consistent, and clear.

DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

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

AUDIT ADJUSTMENTS

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management.

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.

Audit Adjustments (cont.)

The Senate keeps its records on a cash basis of accounting throughout the year and entries are required at year-end to adjust its records to a modified accrual basis of accounting, as required by generally accepted accounting principles. For example, when a payroll period begins before July 1 and ends after July 1, the pay attributable to services performed before July 1 must be recorded as an expenditure in the fiscal year ending June 30, whereas the pay attributable to services performed on or after July 1 must be recorded as an expenditure in the next fiscal year. If Senate staff do not make those adjustments on their own, we must make them so they are included in your financial statements. We are required to separately report such adjustments to you. The following summarizes such audit adjustments:

	Amount
Adjustment to record current year accrued payroll	$ 342,235
Adjustment to reverse prior year accrued payroll	289,811
Adjustments for accounts payable	96,353

In addition to the adjustments required to comply with generally accepted accounting principles, as described in the paragraph above, we noted two invoices for video equipment, in the amounts of $31,621 and $21,645, that were reported as expenditures in fiscal year 2008, even though delivery was not completed until July 2008 (fiscal year 2009). Since management has determined that the effect of these misstatements is immaterial to the financial statements taken as a whole, the Senate's financial statements were not adjusted for these amounts.

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.

Management Representations

We have requested certain representations from management that are included in the management representation letter. This letter is attached.

COMMUNICATION TO THE RULES AND ADMINISTRATION COMMITTEE (cont.)

INDEPENDENCE

We are not aware of any relationships between Baker Tilly Virchow Krause, LLP and the Minnesota State Senate that, in our professional judgment, may reasonably be thought to bear on our independence.

Relating to our audit of the financial statements of for the year ended June 30, 2009, Baker Tilly Virchow Krause, LLP hereby confirms in accordance with the Code of Professional Conduct issued by the American Institute of Certified Public Accountants, that we are, in our professional judgment, independent with respect to the Senate and provided no services to the Senate other than the audit of the current year's financial statements and the following non-attest services, which in our judgment do not impair our independence:

Financial statement preparation
Adjusting journal entries
Trial balance formatting from general ledger data

OTHER AUDIT FINDINGS OR ISSUES

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.

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

We welcome the opportunity to discuss the information included in this letter and any other matters.

CONCLUSION

In closing, we would like to thank you for allowing us to serve you. We are very interested in the long-term success of the Minnesota State Senate and our comments are intended to draw your attention to issues which need to be addressed for the to meet its goals and responsibilities.

This letter, by its nature, focuses on improvements and does not comment on the many strong areas of the Senate's systems and procedures. The Senate's staff seemed genuinely concerned about maintaining the organization's financial reporting system so that informed decisions can be made. They were receptive to our ideas, comments and suggestions.

PETER S. WATTSON
Secretary of the Senate (Legislative)

Senate
State of Minnesota

December 3, 2009

Baker Tilly Virchow Krause, LLP
225 South Sixth Street, Suite 2300
Minneapolis, MN 55402

Dear Auditors:

We are providing this letter in connection with your audit of the financial statements of the Minnesota State Senate as of June 30, 2009, and 2008 and for the years then ended for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, the respective financial positions of the Minnesota State Senate and its changes in financial position, in conformity with accounting principles generally accepted in the United States of America. We confirm that we are responsible for the fair presentation of the previously mentioned financial statements in conformity with accounting principles generally accepted in the United States of America. We are also responsible for adopting sound accounting policies, establishing and maintaining internal control, and preventing and detecting fraud.

We confirm, to the best of our knowledge and belief, the following representations made to you during your audit.

1. The financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America. We have engaged you to advise us in fulfilling that responsibility.

2. We have made available to you all –

   a. Financial records and related data and all audit or relevant monitoring reports, if any, received from funding sources.

   b. Minutes of the meetings of the Rules and Administration Committee or summaries of actions of recent meetings for which minutes have not yet been prepared.

3. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.

4. There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements.

75 Rev. Dr. Martin Luther King, Jr. Blvd., Room 231, St. Paul, MN 55155-1606 • Phone (651) 296-3812
E-Mail: peter.wattson@senate.mn • Fax: (651) 296-7747

5. We believe the effect of the uncorrected financial statement misstatement of $53,266 for the reversal of a prior year adjustment that we passed on recording is immaterial, both individually and in the aggregate, to the basic financial statements taken as a whole. In addition, you have recommended adjusting journal entries, and we are in agreement with those adjustments.

6. We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud.

7. We have no knowledge of any fraud or suspected fraud affecting the entity involving:

   a. Management,

   b. Employees who have significant roles in internal control, or

   c. Others where the fraud could have a material effect on the financial statements.

8. We have no knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, analysts, regulators, or others.

9. We have identified to you any previous financial audits, attestation engagements, performance audits, or other studies related to the objectives of this audit being undertaken and the corrective actions taken to address significant findings and recommendations.

10. The Minnesota State Senate has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or fund equity.

11. The following, if any, have been properly recorded or disclosed in the financial statements:

    a. Related party transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties.

    b. Guarantees, whether written or oral, under which the Senate is contingently liable.

    c. All accounting estimates that could be material to the financial statements, including the key factors and significant assumptions underlying those estimates and measurements. We believe the estimates and measurements are reasonable in the circumstances, consistently applied, and adequately disclosed.

12. We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits and debt contracts; and we have identified and disclosed to you all laws, regulations and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts, including legal and contractual provisions for reporting specific activities in separate funds.

13. There are no -

    a. Violations or possible violations of budget ordinances, provisions of contracts and grant agreements, laws or regulations, including those pertaining to adopting and amending budgets, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency, or for reporting on noncompliance.

    b. We are not aware of any pending or threatened litigation, claims, or assessments or unasserted claims or assessments that are required to be accrued or disclosed in the financial statements in accordance with Financial Accounting Standards Board (FASB) Statement No. 5, and we have not consulted a lawyer concerning litigation, claims, or assessments.

    c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by FASB Statement No. 5.

    d. Reservations or designation of fund equity that were not properly authorized and approved.

14. The Minnesota State Senate has complied with all aspects of contractual agreements that would have a material effect on the financial statement in the event of noncompliance.

15. The financial statements properly classify all funds and activities.

16. In regards to the nonattest services performed by you listed below, we have 1) made all management decisions and performed all management functions; 2) designated an individual with suitable skill, knowledge, or experience to oversee the services; 3) evaluated the adequacy and results of the services performed, and 4) accepted responsibility for the results of the services.

    a. Financial statement preparation

    b. Adjusting journal entries

    c. Trial balance formatting from general ledger data

To the best of our knowledge and belief, no events, including instances of noncompliance, have occurred subsequent to the balance sheet date and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements.

Sincerely,

MINNESOTA STATE SENATE

Signed: Peter S. Wattson
Peter S. Wattson
Secretary of the Senate (Legislative)

Signed: Jo Anne M. Zoff
Jo Anne M. Zoff
Secretary of the Senate (Administrative)

Signed: Eileen Lunzer
Eileen Lunzer
Accounts Payable Manager

Signed: Linda Gorski
Linda Gorski
Payroll Manager

Date: December 3, 2009