

**Annual Financial Report
of the**

MINNESOTA STATE SENATE

For the years ended June 30, 1988 and 1987

MINNESOTA STATE SENATE

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RESPONSE TO FINDINGS AND RECOMMENDATIONS

PATRICK E. FLAHAVEN
Secretary of the Senate

Senate

State of Minnesota

December 20, 1988

The Honorable Roger D. Moe, Chairman
Committee on Rules and Administration
208 State Capitol
St. Paul, Minnesota

Dear Senator Moe:

Herewith transmitted is the audit report by the accounting firm on Peat Marwick Main & Co., conducted under a contract entered into by the Senate to cover fiscal year 1987.

In my role as chief operating officer of the Senate, I have observed that the recommendations that have been made over the past few years in these audits have been helpful to the Senators and staff in conducting internal operations.

Their personnel who performed the audit did so in a thorough and professional manner.

An audit will be performed at the close of fiscal year 1989, pursuant to the direction of the Committee on Rules and Administration.

Sincerely,


Patrick E. Flahaven
Secretary of the Senate

PEF:sb

MINNESOTA STATE SENATE

Statements of Status of
Appropriations and Expenditures

For the years ended June 30, 1988 and 1987

Certified Public Accountants

Peat Marwick Main & Co.

4200 Norwest Center
90 South Seventh Street
Minneapolis, MN 55402

Independent Auditors' Report

Secretary of the Senate
Minnesota State Senate:

We have audited the accompanying statements of status of appropriations and expenditures of the Minnesota State Senate for the years ended June 30, 1988 and 1987. These financial statements are the responsibility of the Senate's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the status of appropriations and expenditures of the Minnesota State Senate for the years ended June 30, 1988 and 1987 in conformity with generally accepted accounting principles.

Peat Marwick Main & Co.

Minneapolis, Minnesota
October 17, 1988



MINNESOTA STATE SENATE

Statements of Status of Appropriations

For the years ended June 30, 1988 and 1987

	<u>1988</u>	<u>1987</u>
Appropriation carryforward, beginning of year	\$ 149,204	30,257
Appropriation for the year	12,428,700	10,881,340
Other receipts for the year	4,313	42,538
Expenditures for the year	(12,043,354)	(10,804,931)
Appropriation carryforward, end of year	\$ <u>538,863</u>	<u>149,204</u>

See accompanying notes to statements.

MINNESOTA STATE SENATE

Statements of Expenditures

For the years ended June 30, 1988 and 1987

	<u>1988</u>	<u>1987</u>
Salaries and benefits	\$ 9,090,904	8,433,925
Contractual expenditures	1,053,337	1,089,055
Travel, per diem, telephones and postage	1,229,346	962,931
Supplies and material	208,158	264,120
Capital outlay - equipment	<u>461,609</u>	<u>54,900</u>
	\$ <u>12,043,354</u>	<u>10,804,931</u>

See accompanying notes to statements.

MINNESOTA STATE SENATE

Notes to Statements

June 30, 1988 and 1987

(1) Summary of Significant Accounting Policies

The accounting policies of the Minnesota State Senate (the Senate) conform to generally accepted accounting principles as applicable to governmental units. The following is a summary of the more significant accounting policies:

(a) Financial Reporting Entity

The Senate was established in 1858. It consists of 67 members who are elected by Minnesota voters to serve four-year terms making laws for the state of Minnesota (the State) and its people, and proposing amendments to the State constitution. The Senate is part of the legislative branch of the State government and, as such, its financial transactions are included in the General Fund and become part of the State financial reporting entity. The financial statements of the General Fund of the State are examined by the Office of the Legislative Auditor.

(b) Basis of Presentation

The Senate is funded by an appropriation from the General Fund of the State. The unspent portion of the appropriation is carried forward indefinitely and, in accordance with specific approval procedures, is available currently for unbudgeted, major expenditures. The cumulative amount of the unspent portion of appropriations is included in the statements of status of appropriations. The Senate's expenditures are classified according to State administrative guidelines.

(c) Basis of Accounting

Basis of accounting refers to when transactions are recognized in the accounts and reported in the financial statements. Specifically, it relates to the timing of the measurement made, regardless of the nature of the measurement.

The financial statements of the Senate are prepared on the modified accrual basis of accounting as appropriate for governmental funds. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred, if measurable. An exception to this general rule is for accumulated unpaid vacation and sick leave, which is not recognized until paid.

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MINNESOTA STATE SENATE

(d) Disbursement of Funds

Senate expenditures are disbursed by the State Department of Finance.

(e) Budgetary Accounting

The Senate adopts a budget for each year of the State's fiscal biennium that reflects the total amount that can be expended by the Senate. Budgets for each year in a biennium are prepared by the Senate's administrative staff and discussed with the Senate Finance Committee. The budget must be approved by the Senate Finance Committee, the Senate and the State House of Representatives. The approved budget is submitted to the State Department of Finance and an appropriation for the budgeted amount is awarded for each year in the biennium. Expenditures cannot legally exceed the total initially budgeted unless supplemental appropriations are approved by the State Commissioner of Finance or unspent appropriations carried forward from previous years are available.

(f) Vacation and Sick Leave Policy

Permanent employees accrue vacation and sick leave according to State administrative guidelines. Senators and temporary employees do not accrue vacation or sick leave. Upon severance, permanent employees are compensated for all of their earned but unused vacation and a percentage of their accumulated sick leave depending upon length of State service and the nature of their severance (voluntary or involuntary).

(g) Fixed Assets

Fixed assets are recorded as expenditures consistent with the procedures for governmental fund-type accounting. The Senate maintains a record of its fixed assets at historical cost in a memorandum ledger.

(2) Pension Plans

The Senate is involved in two pension programs as follows:

- (a) Senators are covered by the Legislative Retirement Plan, a defined benefit plan which is administered by the Minnesota State Retirement System. Senators contribute nine percent of their salaries to the plan. Senators' contributions are deposited into the State's General Fund. Upon retirement of a senator, funds equal to the present value of future benefits to be paid to that senator are transferred from the General Fund to the Minnesota Post Retirement Investment Fund. The Senate makes no direct contribution to the plan and is not responsible for any unfunded liability of the plan.

(Continued)

MINNESOTA STATE SENATE

- (b) All permanent employees of the Senate are covered by the Unclassified Retirement Plan, a defined contribution plan which is also administered by the Minnesota State Retirement System. Employees contribute four percent of their salaries and the Senate contributes six percent of salaries to the plan. The Senate's contribution was \$336,244 in 1988 and \$314,595 in 1987.

(3) Compensated Absences

The Senate does not record accrued liabilities for vacation and sick leave to which its employees are entitled in its financial statements. These expenses are recorded as they are paid. Statement 4 of the National Council on Governmental Accounting, as recognized by Government Standards Board Statement 1, specifies that the portion of the liability that is not to be liquidated with expendable available financial resources is to be reported in the general long-term debt account group. Such portion of the liability related to the Senate is reported in the State general long-term debt account group.

At June 30, 1988 the accrued liabilities for vacation and sick leave which would be payable as severance pay are as follows:

Vacation	\$ 391,969
Sick leave	<u>216,674</u>
Totals	\$ <u>608,643</u>

(4) Reconciliation of Senate Statements to Department of Finance Budgetary Reports

The accompanying statements of status of appropriations and expenditures are prepared on a different basis of accounting than the budgetary reports of the State Department of Finance. The Senate statements are presented on the modified accrual basis and the Department of Finance reports are presented on a cash basis, except that at year end encumbered amounts are included in expenditures. As a result, differences exist between expenditures reported in the Senate financial statements and expenditures reported by the Department of Finance. The following is a reconciliation of expenditures reported in the Senate statements to the expenditures included in the budgetary reports:

	<u>Department of Finance reports</u>	<u>Accrual basis adjustments</u>	<u>Senate financial statements</u>
Appropriation carryforward, beginning of year	\$ 225,606	(76,402)	149,204
Appropriation for the year	12,428,700	-	12,428,700
Other receipts for the year	16,068	(11,755)	4,313
Expenditures for the year	<u>(11,990,775)</u>	<u>(52,579)</u>	<u>(12,043,354)</u>
Appropriation carryforward, end of year	\$ <u>679,599</u>	<u>(140,736)</u>	<u>538,863</u>

Certified Public Accountants

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4200 Norwest Center
90 South Seventh Street
Minneapolis, MN 55402

REPORT ON INTERNAL ACCOUNTING CONTROL

Secretary of the Senate
Minnesota State Senate:

We have audited the statements of status of appropriations and expenditures of the Minnesota State Senate for the year ended June 30, 1988, and have issued our report thereon dated October 17, 1988. As part of our audit we made a study and evaluation of the system of internal accounting control of the Minnesota State Senate, to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards and the standards for financial and compliance audits contained in the Standards for Audit of Governmental Organizations, Programs, Activities, and Functions, issued by the U.S. General Accounting Office. For the purpose of this report, we have classified the significant internal accounting controls in the following categories: appropriations, purchases/disbursements, and payroll. Our study and evaluation included all control categories listed above. The purpose of our study and evaluation was to determine the nature, timing and extent of auditing procedures necessary for expressing an opinion on the financial statements of the Minnesota State Senate. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting control taken as a whole or on any of the categories of control identified above.

The management of the Minnesota State Senate is responsible for establishing and maintaining a system of internal accounting control. In fulfilling that responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any system of internal accounting control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.



Our study and evaluation made for the limited purpose described in the first paragraph would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of internal accounting control of the Minnesota State Senate, taken as a whole or on any of the categories of controls identified in the first paragraph. However, our study and evaluation and our audit disclosed no condition that we believe to be a material weakness. The comment and recommendation presented in the exhibit is intended to improve the system of internal accounting controls and result in certain operating efficiencies. It should be noted that this letter, by its nature, primarily contains our recommendations for improvement and does not include our observations on the strong features of the Minnesota State Senate's financial systems. The factual accuracy of the comment has been discussed with management to obtain its concurrence prior to the development of our recommendation for improvement.

This report is intended solely for the use of management and the Minnesota State Senate and should not be used for any other purpose. This restriction is not intended to limit the distribution of this report, which, upon acceptance by the Minnesota State Senate, is a matter of public record.

Peat Marwick Main & Co.

October 17, 1988

MINNESOTA STATE SENATE

Comment and Recommendation Regarding
Internal Accounting Controls and Operations

UTILIZATION OF COMPUTERIZED GENERAL LEDGER SYSTEM

The Minnesota State Senate uses a computer system to process vendor and payroll checks which can generate summary reports of monthly and fiscal year activity. Computerized reports generated by the system are not used, rather, manual accounting data is maintained for assessing activity to date and fluctuations from the budget.

Current procedures require the Senate to manually total each account balance after posting the current activity. Accounting personnel are not familiar with procedures to enter adjusting entries into the computerized system, therefore the manual and computer balances are not in agreement. Account balances must be manually input into a separate PC spreadsheet to analyze year to date activity against the budget.

We recommend that the Senate consider hiring a contractor to develop written documentation regarding all procedures to be performed relating to the computerized accounting system. This information should be included within the accounting policies and procedures manual. Accounting personnel should be trained how to document and enter adjusting entries onto the system. Reports should be generated on a periodic basis and reconciled to Department of Finance records.

Certified Public Accountants

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4200 Norwest Center
90 South Seventh Street
Minneapolis, MN 55402

REPORT ON COMPLIANCE

Secretary of the Senate
Minnesota State Senate:

We have audited the statements of status of appropriations and expenditures of the Minnesota State Senate for the year ended June 30, 1988, and have issued our report thereon dated October 17, 1988. Our audit was made in accordance with generally accepted auditing standards and the standards for financial and compliance audits contained in the Standards for Audit of Governmental Organizations, Programs, Activities, and Functions, issued by the U.S. General Accounting Office and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The management of the Minnesota State Senate is responsible for compliance with laws and regulations. In connection with the audit referred to above, we performed tests of records and transactions to determine the Minnesota State Senate's compliance with those laws and regulations for which noncompliance could have a material effect on the Minnesota State Senate's statements.

The result of our tests indicated that for the transactions and records tested, the Minnesota State Senate complied with those laws and regulations for which noncompliance could have a material effect on the Minnesota State Senate's statements. With respect to the transactions and records that were not tested by us, nothing came to our attention to indicate that the Minnesota State Senate had not complied with laws and regulations.

Peat Marwick Main & Co.

October 17, 1988



RESPONSE TO FINDINGS AND RECOMMENDATIONS

PATRICK E. FLAHAVEN
Secretary of the Senate

Senate

State of Minnesota

December 20, 1988

Peat Marwick Main & Co.
4200 Norwest Center
90 South Seventh Street
Minneapolis, MN 55402

Gentlemen:

I will recommend to the Committee on Rules and Administration that we follow your suggestion on developing written documentation regarding all procedures to be performed relating to the computerized accounting system. The Fiscal Services staff has indicated that they favor the procedures you suggest, utilizing the computerized general ledger system.

Over the last two years we have followed your recommendations in developing this ledger system and we obviously want to get the maximum benefit from the system.

Sincerely,



Patrick E. Flahaven
Secretary of the Senate

PEF:sb