OLA

OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

Financial Audit Division Report

Office of the Governor

January 1, 2003, through December 31, 2004

MAY 19, 2005 **05-29**

Financial Audit Division

The Office of the Legislative Auditor (OLA) is a professional, nonpartisan office in the legislative branch of Minnesota state government. Its principal responsibility is to audit and evaluate the agencies and programs of state government (the State Auditor audits local governments).

OLA's Financial Audit Division annually audits the state's financial statements and, on a rotating schedule, audits agencies in the executive and judicial branches of state government, three metropolitan agencies, and several "semi-state" organizations. The division also investigates allegations that state resources have been used inappropriately.

The division has a staff of approximately forty auditors, most of whom are CPAs. The division conducts audits in accordance with standards established by the American Institute of Certified Public Accountants and the Comptroller General of the United States.

Consistent with OLA's mission, the Financial Audit Division works to:

- Promote Accountability,
- Strengthen Legislative Oversight, and
- Support Good Financial Management.

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OLA is under the direction of the Legislative Auditor, who is appointed for a six-year term by the Legislative Audit Commission (LAC). The LAC is a bipartisan commission of representatives and senators. It annually selects topics for the Program Evaluation Division, but is generally not involved in scheduling financial audits.

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OFFICE OF THE LEGISLATIVE AUDITOR

State of Minnesota • James Nobles, Legislative Auditor

Senator Ann H. Rest, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

The Honorable Tim Pawlenty
Governor of Minnesota

We conducted an audit of the Office of the Governor for the period January 1, 2003, through December 31, 2004. Our audit scope included payroll and other administrative expenditures, funding arrangements for the Washington D.C. office, and reimbursements for the Governor's residence. Our objectives focused on a review of the internal controls over these financial activities and compliance with applicable legal provisions.

The enclosed Report Summary highlights our overall audit conclusions. The specific audit objectives and conclusions for each area are contained in the individual chapters of this report.

We would like to thank the staff from the Office of the Governor for their cooperation during this audit.

/s/ James R. Nobles

James R. Nobles
Legislative Auditor

/s/ Claudia J. Gudvangen

Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

End of Fieldwork: April 15, 2005

Report Signed On: May 16, 2005

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Audit Participation

The following members of the Office of the Legislative Auditor prepared this report:

Claudia Gudvangen, CPA	Deputy Legislative Auditor
Brad White, CPA, CISA	Audit Manager
Michael Hassing, CPA	Auditor-in-Charge
Carl Otto, CPA, CISA	Auditor
Laurinda Zavala	Auditor

Exit Conference

We discussed the results of the audit with the following staff of the Governor's Office at an exit conference on May 12, 2005:

Bob Schroeder	Deputy Chief of Staff
Paula Brown	Director of Operations
John Pemble	Administrative Services Manager

Report Summary

Overall Conclusion:

- The Office of the Governor's internal controls were adequate and, for the items we tested, it complied with finance-related legal provisions.

The audit report contained no findings relating to internal control and legal compliance. The office resolved a finding included in our prior audit report.

Audit Scope:

Audit Period:
January 1, 2003, to December 31, 2004

Selected Audit Areas:

- Payroll
- Administrative Expenditures (Rent, Communications, Computer Services, Travel, Supplies, and Equipment)
- Residence User Reimbursements
- Washington D.C. Office

Agency Background:

Article V of the State Constitution established the Office of the Governor as part of the executive branch of state government. The office operates under the authority of *Minnesota Statutes*, Chapter 4.

The Governor is responsible for the general direction, administration, and supervision of the affairs of state government, as well as the development of legislative proposals.

The Governor's Office is funded primarily by a General Fund appropriation. Eleven state agencies provided resources to fund the operations of the Washington D.C. Federal Affairs Office.

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Chapter 1. Introduction

By Legislative Audit Commission policy, the Office of the Legislative Auditor audits each of the constitutional offices twice during each term. This audit focused on the financial activities during the first two years of the Governor Pawlenty administration, ending December 31, 2004.

Office Overview

Article V of the State Constitution established the Office of the Governor as part of the executive branch of state government. The office operates under the authority of *Minnesota Statutes,* Chapter 4. The Governor and Lieutenant Governor are elected jointly for a four-year term that begins the first Monday in January following the election. Governor Tim Pawlenty and Lieutenant Governor Carol Molnau were elected in November 2002 and sworn into office on January 6, 2003.

As chief executive, the Governor is responsible for the general direction, administration, and supervision of the affairs of state government, as well as the development of legislative proposals. The Lieutenant Governor's chief duty is to assist the Governor in carrying out the functions of the executive branch. The current Lieutenant Governor, Carol Molnau, also serves as the Commissioner of the Department of Transportation.

The Office of the Governor’s activities were funded primarily by General Fund appropriations. The Legislature originally appropriated $4,714,000, $3,586,000, and $3,586,000 for fiscal years 2003, 2004, and 2005, respectively. However, a legislative reduction of $502,000 was made to the fiscal year 2003 appropriation and the office cancelled an additional $162,000. In addition, fiscal year 2003 resources were reduced by $164,510 as a result of professional/technical contract savings. The office had a $67,000 reduction in its fiscal year 2004 appropriation and cancelled $108,000 of its fiscal year 2005 appropriation. The Governor’s Office utilized personnel of other state agencies for executive protection, computer network and database support, and certain operations at the governor’s residence. The office also received reimbursements of costs for the private use of the governor’s mansion.

Minnesota Statutes, Section 10A.09, requires public officials, including the Governor, to file an annual statement of economic interest with the Campaign Finance and Public Disclosure Board. The statement requires disclosure of investments, real property holdings as an individual or partnership, and ownership or employment with any associated businesses. In addition, as a member of the State Board of Investment, *Minnesota Statutes,* Section 11A.075, requires the Governor to file an annual disclosure statement of any expenses or reimbursements, such as meals, entertainment, transportation, lodging, and seminars exceeding $50 annually that were paid by investment companies or businesses in which the state has invested money. Governor Pawlenty filed the required reports due April 15, 2004 and 2005, for calendar years 2003 and 2004, respectively.

Office of the Governor

Table 1-1 summarizes the sources and uses by fund for fiscal year 2004.

Table 1-1
Sources and Uses
Fiscal Year 2004

	General Fund	Special Revenue Fund [2]
Sources:		
State Appropriation	$3,586,000	$ 0
Appropriation Reduction [1]	(67,000)	0
Receipts	0	44,154
Transfers In	0	216,846
Balance Forward In	271,613	0
Total Sources	$3,790,613	$261,000
Uses:		
Payroll and Benefits	$2,742,310	$164,808
Rent	288,928	23,333
Supplies and Equipment	99,552	7,520
Travel	47,472	2,136
Computer & System Services	38,423	0
Communications	75,464	3,986
Other Expenditures	116,708	3,217
Total Uses	$3,408,857	$205,000
Balance Forward Out (to Fiscal Year 2005)	$ 381,756	$ 56,000

Note (1): Appropriation reduction specified in Minnesota Laws (2003), 1st Special Session, Chapter 1, Art. 1, Sec. 30. The Office of the Governor's share was determined by the Department of Finance as a percentage of its General Fund appropriation.

(2): The only financial activity accounted for in the Special Revenue Fund is the operations of the Governor's Washington D.C. Federal Affairs Office. The Governor's Office receives full funding for this operation from eleven state agencies.

Source: Minnesota Accounting and Procurement System (MAPS) for fiscal year 2004.

Audit Approach

Our audit was conducted in accordance with *Government Auditing Standards*, as issued by the Comptroller General of the United States. Those standards require that we obtain an understanding of the office's internal controls relevant to the audit objectives. We used the guidance contained in *Internal Control – Integrated Framework*, published by the Committee of Sponsoring Organizations of the Treadway Commission, as our criteria to evaluate the office's internal controls. The standards also require that we plan the audit to provide reasonable assurance that the Office of the Governor complied with financial-related legal provisions that are significant to the audit. In determining the office's compliance with legal provisions, we considered requirements of laws, regulations, contracts, and grant agreements.

To meet the audit objectives, we gained an understanding of the Office of the Governor's financial policies and procedures. We considered the risk of errors in the accounting records and noncompliance with relevant legal provisions. We analyzed accounting data to identify unusual trends or significant changes in financial operations. We examined documents supporting the office's internal controls and compliance with laws, regulations, contracts, and grant provisions.

Chapter 2. Employee Payroll

Chapter Conclusions

The Office of the Governor's internal controls provided reasonable assurance that employees were accurately compensated in compliance with its personnel plan and management's authorization, and that payroll expenditures were properly recorded in the accounting and payroll systems. For the items tested, the office complied with finance-related legal provisions and the compensation plan of the Office of the Governor.

Audit Objectives

Our review of the Office of the Governor's payroll expenditures focused on the following questions:

- Did the Governor's Office internal controls provide reasonable assurance that it accurately compensated its employees in compliance with the office's compensation plan and management's authorization and that it properly recorded payroll expenditures in the state's accounting and payroll systems?
- For the items tested, did the office comply with finance-related legal provisions and the Governor's Office compensation plan?

Background

The Governor's Office Compensation Plan establishes the compensation, terms, and conditions of employment for employees of the Office of the Governor. The plan provides salary ranges for support staff, professional staff, and managerial staff. All employees covered by the plan serve in unclassified positions. The Office of the Governor employed full-time staff at four locations including the Capitol, Administration Building, Governor's residence, and at the Washington D.C. Federal Affairs Office. During our two-year audit period from January 1, 2003, to December 31, 2004, the Governor's Office disbursed $5,777,415 in payroll expenditures (including $234,974 of costs from the former administration), which represents approximately 77 percent of its total expenditures.

Minnesota Statutes, Section 15A.082, authorizes the state Compensation Council to establish the salary of the constitutional officers. The current salary of the Governor is set at $120,311 and the Lieutenant Governor's salary is $78,197. The Lieutenant Governor is also serving as the Commissioner of Transportation. The Governor's Office pays her full salary, at the amount authorized for the Lieutenant Governor. The Department of Transportation pays any expense reimbursements related to that department's activities.

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Additionally, certain employees that work for the Governor's Office are employed and funded by other executive branch agencies or governmental units. The Governor's Office properly reported the personnel costs supported by other agency appropriations to the senate governmental operations budget division and the house state government finance division in accordance with Minnesota Laws (2003), 1st Special Session, Chapter 1, Art. 1, Sec. 3.

Table 2-1 identifies various personnel funding arrangements between the Office of the Governor and other agencies or governmental units.

Table 2-1
Personnel Funding Arrangements with Other Agencies
As of April 15, 2005

Position/Function	Employed By	Funded By
Assistant to the Governor	City of St. Paul	Governor's Office
Administrative Services Manager	Administration	Governor's Office
Washington D.C. Director	Governor's Office	Eleven State Agencies (1)
Washington D.C. Deputy	Governor's Office	Eleven State Agencies (1)
Governor's Residence Groundkeeper	Governor's Office	Administration
State Sex Offender Policy Director	Governor's Office	Human Services, Corrections, Public Safety
Transportation Policy Advisor	Governor's Office	Governor's Office and Transportation
Policy Advisor (2)	Commerce	Commerce
IT Support Services	Administration	Administration
State Patrol Officers – Governor's Executive Protection	Public Safety	Public Safety

Note (1) The Washington D.C. Federal Affairs Office is funded by the Departments of Human Services, Education, Employment and Economic Development, Commerce, Health, Agriculture, Public Safety, and Transportation, and the Housing Finance, Metropolitan Council, and Pollution Control agencies.

(2) This policy advisor represents interests of the Departments of Commerce, Natural Resources, and Agriculture, the Board of Water and Soil Resources, and the Pollution Control Agency. The arrangement was established as a temporary mobility assignment through June 30, 2005.

Source: Governor's Office payroll/personnel records and interagency agreements.

We observed that employees within the Governor's Office administrative services unit had an incompatible ability to update both personnel and payroll functions in the State Employment Management System (SEMA4). The Governor's Office appropriately justified this incompatible access in writing to the statewide SEMA4 Security Administrator at the Department of Employee Relations indicating a limited number of staff were available. As an alternative to separating these incompatible duties, the office instituted mitigating detective controls to independently review timesheet hours, hourly rates, and special transactions recorded on the biweekly SEMA4 payroll register.

Chapter 3. Administrative Expenditures

Chapter Conclusions

The Office of the Governor's internal controls provided reasonable assurance that it accurately paid for goods and services received, appropriately authorized procurement and payment transactions, and properly recorded these financial activities in the accounting system. In addition, the office properly recorded fixed asset purchases on the state's fixed asset inventory, and accurately billed and deposited reimbursements for use of the Governor's residence. For the items tested, the office reimbursed employees for travel costs in accordance with its personnel plan and state travel policies, and complied with applicable procurement requirements for acquisition of goods and services.

Audit Objectives

We focused our review of administrative expenditures on the following objectives:

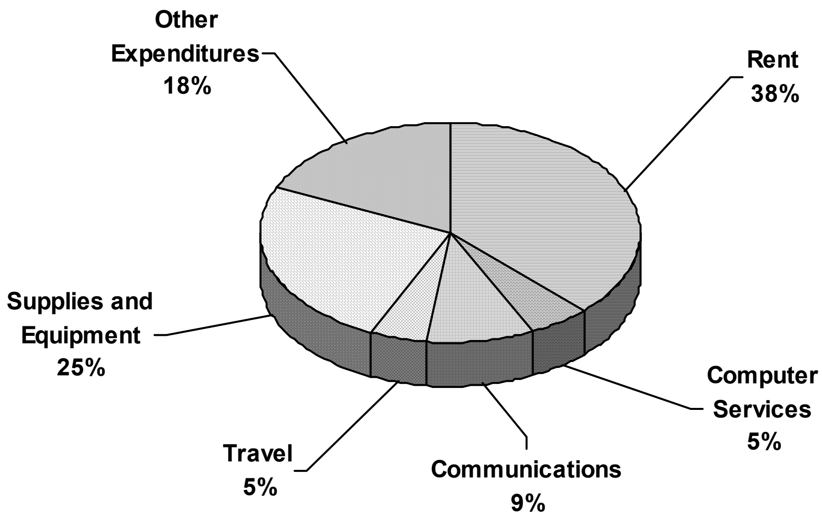
- Did the Office of the Governor's internal controls provide reasonable assurance that it accurately paid for goods and services received, obtained management's authorization, and properly recorded transactions in the accounting system?
- Did the office accurately bill and collect reimbursements for non-state events held at the Governor's residence and properly record the reimbursement in the state's accounting system?
- Did the office comply with the Governor's Office personnel plan, state travel policies, applicable procurement requirements, and other finance-related legal provisions?

Background

The Governor's Office spent about $1.7 million for non-payroll administrative expenditures for calendar years 2003 to 2004, which represents about 23 percent of the annual spending budget. It incurred administrative costs for rent, supplies and equipment, communications, computer and system services, travel, and other administrative expenditures. In addition, during the audit period, the Governor's Office collected over $54,000 of expenditure reimbursements. As shown in Figure 3-1, rent is the largest operating cost, comprising of 38 percent of the total, while other operating costs account for the remaining 62 percent.

Office of the Governor

Figure 3-1
Nonpayroll Administrative Expenditures by Type
January 1, 2003, to December 31, 2004



Note: Percentages are shown net of applicable expenditure reimbursements.

Source: Minnesota Accounting and Procurement System (MAPS).

Rent

The Governor's Office rented office space in the State Capitol, the Administration Building, and in Washington D.C. The office also rented equipment and other miscellaneous items for use at Capitol and Governor's residence functions. The Governor's Office total cost for rented office space and equipment during the two-year audit period was $651,706, or an annual average of approximately $326,000.

Computer and Systems Services

Computer and system service expenditures include items such as computers, computer software, software upgrades, license fees, and maintenance. These services are needed to support office operations for the Capitol Building, Administration Building, and the Washington D.C. office. The cost of these items totaled $94,024 for the past two calendar years, excluding the cost of computer support services provided by the Department of Administration.

Communications

Communication expenditures include items such as network services, postage and mail, and delivery services. Network services include wired and cellular telephone service, fax and pager charges, and computer communications. The office requires employees to reimburse for any personal cellular phone calls when the total minutes exceed the monthly plan allowance. The office spent $157,890 on communication costs during 2003 and 2004, or about $79,000 annually.

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Travel

The Governor and staff incur travel costs while conducting state business within Minnesota, or when representing the state at national or international meetings and events. The office incurred out-of-state travel for the National Governor's Association conferences, and meetings with the Minnesota's Congressional delegation and staff in Washington D.C. The office generally used a local travel agency or internet agencies to book its flights. The office required employees to document the purpose and approval for out-of-state travel in advance of each trip. The office used the Department of Transportation's airplane and Central Motor Pool or personal vehicles when traveling within the state.

The Governor's Office compensation plan establishes criteria for when an employee is eligible to receive reimbursement for travel costs, such as transportation, meals, lodging, and other miscellaneous expenses. The Governor's Office incurred $65,170 of in-state travel costs and $25,953 of out-state travel costs for the two-year audit period.

In addition to these costs, the Governor and his staff went on trips funded by other agencies. The state agency or organization requesting the Governor's attendance paid the costs of the trip. During this period, the Governor went on trade missions to Canada, Poland, and the Czech Republic, and also visited troops in Kosovo. In addition, the Governor is provided with 24-hour security. The Department of Public Safety used state troopers to provide security for the Governor and first family while at work, home, or in travel status. The Department of Public Safety pays for the executive protection of the Governor, including all personnel and travel costs. During fiscal year 2004, the Department of Public Safety spent approximately $1.1 million for personnel and travel costs related to security services provided to the Governor.

Supplies and Equipment

The office purchased various office supplies and equipment, generally from the Central Stores Division of the Department of Administration, to support office operations, including items shipped to the Washington D.C. office. The office also purchased gifts, awards, pictures, and flowers for public recognition or gratitude through the Governor's necessary expense account. In addition, the Governor's Office purchased goods for the Governor's residence, such as supplies for cleaning and maintenance of the residence. Food and beverages were purchased for the Governor's family consumption and for events held at the residence. The Governor reimbursed the office for food based on a monthly formula developed by the U.S. Department of Agriculture. Third-party users of the residence also reimbursed the office for the costs of food and other supplies. The Governor's Office spent $320,007 for various supplies and $110,502 for equipment purchased during the two-year audit period.

Governor's Residence

The State of Minnesota maintains and operates a residence for the Governor located at 1006 Summit Avenue in Saint Paul. Its use is defined in *Minnesota Statutes*, Section 16B.27, as follows:

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> The governor's residence must be used for official ceremonial functions of the state, and to provide suitable living quarters for the governor of the state.

The Governor's Office employs a residence manager to plan, budget, and oversee all of the activities held at the residence. The Governor's Residence Council is responsible for soliciting gifts for furnishings and the restoration of the residence. We conducted a separate audit of the Governor's Residence Council for the four years ended December 31, 2002.

Organizations that hold non-state events at the Governor's Residence must reimburse all direct and indirect costs associated with the event as directed by *Minnesota Statutes*, Sections 16A.723 and 16B.27, Subd. 6. Non-state events held at the residence during the audit period included nonpolitical fund-raising events, various political meetings, and events to honor various dignitaries. During calendar years 2003 and 2004, the residence held 161 Governor's Office hosted events, 14 state-hosted events, and 33 non-state events. The Governor's office collected $34,054 in reimbursements for state-hosted and non-state events.

Status of Prior Audit Issues
As of April 15, 2005

Most Recent Audit

Legislative Audit Report 03-35, issued in June 2003, covered the last two calendar years of the Governor Jesse Ventura administration ending January 6, 2003. The audit included a review of payroll, rent, membership fees, supplies and materials, communications, travel-related expenses, and reimbursements for use of the Governor's residence. The audit report contained one finding related to a duplicate travel expense reimbursement. The Governor's Office collected the overpayment from the employee to resolve the issue discussed in the report.

Legislative Audit Report 03-39, issued in July 2003, covered the transition funding of Governor-Elect Tim Pawlenty. The Governor-Elect was elected to office in November 2002. From that time until he was sworn in as Governor on January 6, 2003, the Department of Administration provided administrative support for the Governor-elect's financial activities related to assembling his team, developing his policy agenda, and planning inauguration activities. The audit included a review of the funding sources and uses for professional services. The audit report, addressed to the Department of Administration, contained one finding related to professional and technical service contracts. We did not follow up on this issue as it related to transition activities and did not pertain to the current audit of the Office of the Governor.

State of Minnesota Audit Follow-Up Process

The Department of Finance, on behalf of the Governor, maintains a quarterly process for following up on issues cited in financial audit reports issued by the Legislative Auditor. The process consists of an exchange of written correspondence that documents the status of audit findings. The follow-up process continues until Finance is satisfied that the issues have been resolved. It covers entities headed by gubernatorial appointees, including most state agencies, boards, commissions, and Minnesota state colleges and universities. It is not applied to audits of the University of Minnesota, any quasi-state organizations, such as metropolitan agencies or the State Agricultural Society, the state constitutional officers, or the judicial branch.