O L A **OFFICE OF THE LEGISLATIVE AUDITOR**
STATE OF MINNESOTA

Financial Audit Division Report

Office of the Governor

January 1, 2005, through December 31, 2006

July 20, 2007 **07-19**

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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OFFICE OF THE LEGISLATIVE AUDITOR
State of Minnesota • James Nobles, Legislative Auditor

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OLA

OFFICE OF THE LEGISLATIVE AUDITOR

State of Minnesota • James Nobles, Legislative Auditor

Representative Rick Hansen, 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, 2005, through December 31, 2006. Our audit scope included payroll and other administrative expenditures, funding arrangements for the Washington, DC 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/ Cecile M. Ferkul

Cecile M. Ferkul, CPA, CISA
Deputy Legislative Auditor

End of Fieldwork: April 13, 2007

Report Signed On: July 17, 2007

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Audit Participation

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

Cecile Ferkul, CPA, CISA	Deputy Legislative Auditor
Tom Donahue, CPA	Audit Manager
Pat Ryan	Auditor-in-Charge
Mark Allan	Auditor
Sara Becker	Auditor

Report Summary

Overall Conclusion:

- The Office of the Governor's internal controls provided reasonable assurance that it accurately reported its transactions in the state's accounting system, complied with material financial-related legal provisions, and safeguarded its assets.

The report contains no findings.

Audit Scope:

Audit Period:
January 1, 2005, through December 31, 2006.

Selected Audit Areas:
- Payroll
- Administrative Expenditures
- Residence User Reimbursements
- Washington, DC 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* 2006, 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 Office of the Governor is funded primarily by a General Fund appropriation. Ten state agencies and the Metropolitan Council provided resources to the office to fund the operations of the Washington, DC 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 last two years of Governor Pawlenty's first administration, ending December 31, 2006.

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* 2006, 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 reelected to a second term in November 2006.

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 office used 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 residence.

Minnesota Statutes 2006, 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* 2006, 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 for calendar years 2005 and 2006.

Office of the Governor

Table 1-1 summarizes the sources and uses by fund for fiscal year 2006.

Table 1-1
Sources and Uses
Fiscal Year 2006

	General Fund(1)	Special Revenue Fund(2)
Sources:		
State Appropriation	$3,584,000	$ 0
Revenue	0	44,155
Transfers In	0	216,845
Balance Forward In	284,529	41,395
Total Sources	$3,868,529	$302,395
Uses:		
Payroll and Benefits	$2,759,937	$188,003
Rent	284,194	17,831
Supplies and Equipment	132,463	3,509
Communications	81,603	5,104
Travel	59,974	1,352
Memberships	43,500	80,400
Computer and System Services	40,431	0
Other Expenditures	106,955	2,696
Total Uses	$3,509,057	$298,895
Balance Forward Out (to Fiscal Year 2007)	$ 359,472	$ 3,500

Note (1): The General Fund is used to account for the office's state appropriation and financial operations.

Note (2): The Special Revenue Fund is used to account for the operations of the Washington, DC Federal Affairs Office. The Governor's Office received full funding for the office from ten state agencies and the Metropolitan Council. See Table 1-2.

Source: Minnesota Accounting and Procurement System for budgetary fiscal year 2006.

Washington, DC Federal Affairs Office

The Office of the Governor operates a Washington, DC Federal Affairs Office. The office operates with a staff of three employees.[1] The office's core responsibilities include working with federal agencies and congress to address federal legislation, regulations, and state mandates. In addition, the office works to provide federal grant opportunities to the state.

Under Minnesota Statutes 2006, Section 471.59, the office entered into joint powers agreements with ten state agencies and the Metropolitan Council to fund the office based on the amount of federal funds they expend. Table 1-2 shows the breakdown of funding provided by those agencies for fiscal year 2006.

[1] *Minnesota Statutes* 2006, Section 4.46 provides for staffing and operation of the Washington D.C. office.

Table 1-2
Washington, DC Federal Affairs Office Funding
Fiscal Year 2006

Agency	Amount
Human Services	$125,036
Transportation	33,428
Education	29,102
Employment & Economic Development	15,485
Metropolitan Council	10,727
Health	10,315
Housing Finance	9,697
Commerce	8,275
Public Safety	7,760
Pollution Control	6,051
Agriculture	5,124
Total	$261,000

Source: Minnesota Accounting and Procurement System for budgetary fiscal year 2006.

Audit Approach

Our audit was conducted in accordance with *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we obtain an understanding of the Office of the Governor'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,[2] as our criteria to evaluate agency 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 department'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 misstatements 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 a sample of evidence supporting the agency's internal controls and compliance with laws, regulations, contracts, and grant provisions.

[2]The Treadway Commission and its Committee of Sponsoring Organizations (COSO) were established in the mid1980s by the major national associations of accountants. One of their primary tasks was to identify the components of internal control that organizations should have in place to prevent inappropriate financial activity.

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Chapter 2. Employee Payroll

Chapter Conclusions

The Office of the Governor properly authorized and accurately recorded payroll expenditures in the state's accounting records. For the items tested, the office complied with material finance-related legal provisions and the bargaining unit agreements governing payroll expenditures.

Audit Objective

The primary objective of our audit of payroll expenditures was to answer the following questions:

- Did the office properly authorize payroll expenditures and accurately record the expenditures in the state's accounting records?

- Did the office comply with material finance-related legal provisions and the bargaining unit agreements governing payroll expenditures?

Background Information

During fiscal year 2006, the office expended $2.9 million on employee payroll, which represented about 77 percent of total expenditures. The Office of the Governor employed staff at four locations, including the Capitol, Administration Building, Governor's residence, and the Washington, DC Federal Affairs Office. As of April 2007, the office employed a total of 45 employees.

Table 2-1
Summary of Payroll Expenditures
Fiscal Year 2006

Earnings Type	FY 2006
Full Time	$2,795,863
Part-time, Seasonal, Labor Service	89,217
Overtime Pay	126
Other Benefits	62,734
Total	$2,947,940

Source: Minnesota Accounting and Procurement System for budgetary fiscal year 2006.

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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.

Minnesota Statutes 2006, Section 15A.082, authorizes the state Compensation Council to establish the salary of the constitutional officers. For fiscal year 2007, the Governor's salary was $120,303 and the Lieutenant Governor's salary was $78,197. The Lieutenant Governor also served as the Commissioner of Transportation during the audit period but was paid the Lieutenant Governor's salary. In October 2005, the office entered into an inter-agency agreement with the Department of Transportation, which specified that 65 percent of the Lieutenant Governor's salary would be paid by that department, and 35 percent would be funded by the Office of the Governor. We found that the terms of the agreement were complied with.

Additionally, certain employees that work for the Office of the Governor are partially funded by other executive branch agencies or governmental units. The 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, as required by law.[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 March 31, 2007

Position/Function	Employed By	Funded By
Lt. Governor	Governor/Transportation	Both (1)
Director of Federal Affairs	Governor's Office	Fourteen State Agencies (2)
Washington, DC Deputy Director	Governor's Office	Fourteen State Agencies (2)
Federal Affairs Specialist	Governor's Office	Fourteen State Agencies (2)
IT Support Services	OET	OET
State Patrol Officers	Public Safety	Public Safety
Senior Policy Advisors	Governor's Office	Governor's/Various (3)
Administrative Services Manager	Administration	Governor's Office
Governor's Residence Groundskeeper	Governor's Office	Administration

(1) 65 percent of Lt. Governor's salary is a MnDOT expense, with the remaining 35 percent funded by the Governor's Office.

(2) The Washington, DC Federal Affairs Office is funded by the departments of Human Services, Education, Corrections, Employment and Economic Development, Commerce, Health, Agriculture, Public Safety, Transportation, Labor & Industry, Housing Finance, Pollution Control, Natural Resources, and the Metropolitan Council.

(3) Senior Policy Advisors are funded 50 percent by the Governor's Office, with the other 50 percent being obligations of the departments of Commerce, Natural Resources, Agriculture, Transportation, Administration, Public Safety, Employment & Economic Development, Labor & Industry, Revenue, Employee Relations, Health, Human Services, Education, Military Affairs, Veteran Affairs, Office of Higher Education, Enterprise Technology, Housing Finance, Metropolitan Council, and Pollution Control.

Source: Minnesota Accounting and Procurement System.

[3] *Minnesota Laws* 2005, Chapter 156, Art. 1, Sec. 3.

Office of the Governor

Employees within the office's administrative services unit had an incompatible ability to update both personnel and payroll functions in the State Employment Management System. The office appropriately justified this incompatible access in writing to 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 payroll register.

There were no written findings as a result of our work in this area.

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Chapter 3. Administrative Expenditures

Chapter Conclusions

The Office of the Governor properly authorized the purchase of goods and services and accurately recorded the financial transactions in the state's accounting system. In addition, the office accurately billed and deposited reimbursements for use of the Governor's residence. For the items tested, the office complied with the Governor's Office personnel plan, state travel policies, other finance-related legal provisions, and adequately safeguarded assets.

Audit Objectives

The primary objective of our audit of administrative expenditures was to answer the following questions:

- Did the Office of the Governor properly authorize and accurately record financial transactions in the state's accounting system?
- Did the office accurately bill and collect reimbursements for nonstate events held at the Governor's residence and properly record the reimbursements in the state's accounting system?
- Did the office adequately safeguard assets?
- Did the office comply with the Governor's Office personnel plan, state travel policies, and other finance-related legal provisions?

Background

The office spent about $860,000 for nonpayroll administrative expenditures in fiscal year 2006, which represents about 23 percent of total expenditures. It incurred administrative costs for rent, memberships, communications, supplies and equipment, travel, computer systems and services, and other operating expenditures. As shown in Table 3-1, rent was the largest category of administrative expenditures.

Table 3-1
Summary of Nonpayroll Administrative Expenditures
Fiscal Year 2006

Expenditure Category	2006
Space Rental	$302,024
Memberships	123,900
Communications	86,707
Equipment	68,942
Supplies	67,030
Travel	61,326
Computer Systems and Services	40,431
Other Expenditures	109,652
Total	$860,012

Source: Minnesota Accounting and Procurement System for budgetary fiscal year 2006.

Rent

The Office of the Governor rented office space in the State Capitol, the Administration Building, and in Washington, DC.

Memberships

The Office of the Governor paid $120,400 in membership fees for the National Governors Association.

Communications

Communication expenditures included items such as network services, postage and mail, and delivery services. Network services included wired and cellular telephone service, fax and pager charges, and computer communications. The office required employees to reimburse the cost of personal cellular phone calls.

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, DC office. The office also purchased gifts, awards, pictures, and flowers for public recognition or gratitude as provided for through the Governor's necessary expense account. In addition, the 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.

Travel

The Governor and staff incurred 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 Governors Association conferences and meetings with Minnesota's congressional delegation and staff in Washington, DC. The office required employees to document the purpose and approval for out-of-state travel in advance of each trip.

The office's compensation plan established criteria for when an employee was eligible to receive reimbursement for travel costs, such as transportation, meals, lodging, and other miscellaneous expenses.

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. In addition, the Governor, in accordance with *Minnesota Statutes* 2006, Section 299D.03, 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 2006, the Department of Public Safety spent about $1.1 million for personnel and travel costs related to security services provided to the Governor.

Computer and Systems Services

Computer and system service expenditures included items such as computers, computer software, software upgrades, license fees, and maintenance. These services were needed to support office operations for the Capitol, Governor's residence, Administration Building, and the Washington, DC office.

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* 2006, Section 16B.27, as follows:

> 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 office employed a residence manager to plan, budget, and oversee all of the activities held at the residence. The Governor's Residence Council was responsible for soliciting gifts for furnishings and the restoration of the residence.

State agency and nonstate agency events held at the Governor's Residence must reimburse all direct and indirect costs associated with the event as directed by *Minnesota Statutes* 2006,

Office of the Governor

16A.723 and 16B.27, subd. 6. During calendar years 2005 and 2006, the residence held 168 Governor's office hosted events, 8 state agency hosted events, and 10 nonstate hosted events. The Office of the Governor collected $23,475 in reimbursements for state agency and nonstate agency events.

There were no written findings as a result of our work in this area.

Status of Prior Audit Issues

Most Recent Audit

Legislative Audit Report 05-29, issued in May 2005, covered the first two calendar years of Governor Pawlenty's first term. 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 did not contain any findings.

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.