OLA

OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

Financial-Related Audit

Office of the Governor

January 1, 1999, through December 31, 2000

JUNE 28, 2001 **01-34**

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 fifty 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.

Through its Program Evaluation Division, OLA conducts several evaluations each year and one best practices review.

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 Jesse Ventura
Governor of Minnesota

We have audited the Office of the Governor for the period January 1, 1999, through December 31, 2000, as further explained in Chapter 1. Our audit scope included payroll, travel, rent, membership fees, communications, supplies and equipment, and Governor's residence user reimbursements. We discuss these issues more fully in the individual chapters of this report.

We conducted our audit 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 management controls relevant to the audit. The standards also require that we design the audit to provide reasonable assurance that the Office of the Governor complied with provisions of laws, regulations, and contracts significant to the audit. The management of the Office of the Governor is responsible for establishing and maintaining the internal control structure and for compliance with applicable laws, regulations, and contracts.

This report is intended for the information of the Legislative Audit Commission and the management of the Office of the Governor. This restriction is not intended to limit the distribution of this report, which was issued as a public document on June 28, 2001.

/s/ James R. Nobles	*/s/ Claudia J. Gudvangen*
James R. Nobles Legislative Auditor	Claudia J. Gudvangen Deputy Legislative Auditor

End of Fieldwork: March 30, 2001

Report Signed On: June 22, 2001

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Audit Participation

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

Claudia Gudvangen, CPA	Deputy Legislative Auditor
Brad White, CPA, CISA	Audit Manager
David Poliseno, CPA, CISA	Auditor-In-Charge
Gena Hoffman	Auditor
Tim Haag	Auditor

Exit Conference

We discussed the findings and recommendations with the following representatives of the Governor's Office at the exit conference held on June 7, 2001:

Steven Bosacker	Chief of Staff
Paula Brown	Director of Operations
John Pemble	Administrative Services Manager

Report Summary

The Office of the Legislative Auditor (OLA) audits each of the constitutional offices twice during an incumbent's term pursuant to Legislative Audit Commission policy. This audit focused on the financial activities during the first two calendar years of Governor Ventura's administration.

Current Findings and Recommendations:

- The Office of the Governor reimbursed some employees for certain meals that were not eligible for reimbursement. The office reimbursed the employees for meals, totaling $424, that it already had paid as part of the cost of a conference or through commercial transportation. The office subsequently recovered the overpayments and, we recommended that, in the future, they compare conference and travel itineraries to employee expense reimbursements to ensure meals are not paid for twice. (Finding 1, page 9)
- The office did not sufficiently document out-of-state trips. Employees did not always prepare the required out-of-state travel authorization form prior to incurring costs of a scheduled trip. The office also did not document a cost-benefit justification when employees extended their travel status in order to obtain reduced airfare prices. We recommend the office document its comparison of airfare savings to any additional meals and lodging costs incurred. (Finding 2, page 10)
- The office did not effectively control cellular phone use. We found that the office did not routinely monitor personal cell phone use by employees until January 2001. A review by the office of an 18-month period resulted in staff reimbursement for personal calls totaling $2,041. However, an informal office practice, based on a Department of Administration policy, allowed employees to make personal phone calls without reimbursement if the calls did not exceed the employee's cellular phone plan limit. However, a Department of Finance policy requires reimbursement of these personal calls. We recommended clarification of executive branch policies governing personal cellular phone usage. Also, the office did not effectively assign cellular phone plans since business and personal usage was not distinguished. (Finding 3, page 16)
- The contract associated with the Governor's weekly radio talk show needs to be clarified. The office incurred about $450 of incidental costs necessary to broadcast the show remotely. The contract does not explicitly identify responsibility for these costs. We recommend clarification. (Finding 4, page 17)

Financial-Related Audit Reports address internal control weaknesses and noncompliance issues noted during our audits of state departments and agencies. The scope of our audit work at the Office of the Governor included payroll, travel, and administrative expenditures for rent, membership fees, communications, supplies and equipment, and Governor's residence user reimbursements. The office's response is included in the report.

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Chapter 1. Introduction

Article V of the State Constitution established the Office of the Governor as part of the executive branch of state government. It operates under 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. Under the current administration, the Governor and Lieutenant Governor share offices and support staff. As chief executive, the Governor is responsible for the general direction, administration, and supervision of the affairs of state government, as well as making appointments and developing legislative proposals. The Lieutenant Governor's chief duty is to assist the Governor in carrying out the functions of the executive branch. The Governor has also delegated other duties to the Lieutenant Governor.

Governor Jesse Ventura and Lieutenant Governor Mae Schunk were elected in November 1998 and sworn into office in January 1999. The Office of the Governor's activities were funded by General Fund appropriations. The Legislature appropriated $4,052,000 and $4,171,000 for fiscal years 2000 and 2001, respectively. The Governor also utilized personnel of other state agencies for executive protection, computer network and database support, and groundskeeping services at the Governor's residence. The office received reimbursements to the Governor's Residence User Fund for private use of the Governor's mansion, as discussed in Chapter 4. Table 1-1 summarizes the sources and uses of funds for the Office of the Governor in fiscal year 2000.

Table 1-1
Sources and Uses of Funds
Fiscal Year 2000

Sources:	
State Appropriation	$4,052,000
Uses:	
Payroll	$3,014,874
Rent	327,387
Supplies and Equipment	202,843
Travel	132,563
Membership Fees	108,160
Communications	103,318
Other Expenditures	80,025
Total Uses	$3,969,170
Balance Forward Out (to Fiscal Year 2001)	$ 82,830

Source: Minnesota Accounting and Procurement System (MAPS) for fiscal year 2000 as of September 8, 2000.

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 calendar years of the Governor Ventura Administration ending December 31, 2000.

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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 material finance-related legal provisions and the personnel plan of the Office of the Governor.

The Governor's Office employed 51 full-time employees as of December 2000. The office has four separate locations with 37 employees at the capitol, two employees at the Department of Administration, ten employees at the Governor's residence and two employees in Washington, D.C. Minnesota Statutes authorize a separate compensation or personnel plan for the Governor's employees. The plan establishes three categories of positions: support, professional, and managerial. Each category has individual salary ranges. All employees covered by the plan serve in unclassified positions. To achieve continuity between administrations, the accounting director is a classified employee of the Department of Administration, but is paid from the Governor's appropriation. For fiscal year 2000, the Governor's Office payroll costs were approximately $3 million as shown in Table 2-1.

Table 2-1
Payroll Expenditures
Fiscal Year Ended June 30, 2000

Governor's Office	$2,437,248
Governor's Residence	425,247
Washington Office	152,379
Total Payroll Expenditures	$3,014,874

Source: Minnesota Accounting and Procurement System for fiscal year 2000, as of September 8, 2000.

Additionally, other employees worked for the Office of the Governor, but were paid by other state agencies. The office reported these expenditures to the Legislature annually, as required by Minnesota Laws of 1999, Chapter 250, Article 1, Section 3. During our audit period, the Department of Administration provided technical support for the Governor's Office computer network and database and an employee for general maintenance and groundskeeping at the Governor's residence. Additionally, the Department of Public Safety received an appropriation to provide executive protection for the Governor and the residence. For fiscal year 2000, the cost of this executive protection totaled $1,471,382, including payroll, travel, and other expenses.

Office of the Governor

Audit Objectives and Methodology

We focused on the following objectives during our audit of payroll expenditures:

- Did the Office of the Governor's internal controls provide reasonable assurance that it accurately compensated its employees in compliance with the office's personnel plan and management's authorization and properly recorded payroll expenditures in the state's accounting system?

- Did the office comply with material finance-related legal provisions and the Governor's Office personnel plan?

To meet these objectives, we interviewed staff from the Office of the Governor to gain an understanding of the internal control structure over personnel and payroll processing. We analyzed biweekly payroll transactions and verified that hours processed were supported by timesheets authorizing hours worked and leave taken. We compared the Governor and Lieutenant Governor's salary to the levels approved by the compensation council and reviewed staff salary levels and pay increases for compliance with the Governor's Office compensation plan.

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 state's accounting and payroll systems. For the items tested, the office complied with material finance-related legal provisions and the Governor's Office personnel plan.

Chapter 3. Travel Expenditures

Chapter Conclusions

The Office of the Governor's internal controls provided reasonable assurance that vendors and employees were accurately paid for travel costs and that these expenses were properly recorded in the accounting system. However, the office reimbursed some employees for certain meals they were not entitled to receive. It did not compare conference and travel itineraries to employee expense reimbursements to ensure that meals were not paid for twice. As a result, some employees were paid for meals, totaling $416, that had already been paid as part of the cost of a conference or through commercial transportation. In addition, we also noted that the office did not sufficiently document out-of-state travel. Employees did not always prepare the required out-of-state travel authorization form prior to incurring costs of a scheduled trip, and they did not properly document all circumstances surrounding their trip.

For the items tested, except for the findings mentioned, the office complied with travel requirements of the Governor's Office personnel plan, state travel policies, and other finance-related legal provisions.

The Governor, Lieutenant Governor, and their staff incur travel costs while conducting state business. The office used the Department of Transportation's airplane and Central Motor Pool vehicles when traveling within the state. For out-of-state trips, the office generally used a local travel agency to book its flights. The out-of-state trips were generally for conferences, meetings in Washington, D.C. for issues that affected Minnesota, and to promote economic development in Minnesota. Office staff are required to document the purpose and approval for out-of-state travel in advance of each trip. The office's personnel plan establishes criteria for when an employee is eligible to receive reimbursement for travel costs such as transportation, meals, lodging, and other miscellaneous expenses. Typically, the office directly paid for certain travel costs associated with the trips, such as commercial transportation. Table 3-1 shows a breakdown of travel costs paid by the Governor's Office for fiscal year 2000.

Table 3-1
Travel Expenditures
Fiscal Year Ended June 30, 2000

Out-of-State Travel	$ 67,604
In-State Travel	37,681
Motor Pool Rentals	27,278
Total	$132,563

Source: Minnesota Accounting and Procurement System for fiscal year 2000, as of September 8, 2000.

Office of the Governor

In addition to these costs, the Governor and his staff accompanied other state agency staff on trips where they deemed the Governor's presence essential. The state agency requesting the Governor's attendance paid the costs of the trip from its own appropriation. For example, travel costs for securing the state's bond rating were paid by the Department of Finance and economic trade missions were paid by the Department of Trade and Economic Development.

Governor’s Private Business Activities

The Governor’s Office also incurred travel costs for employees to accompany the Governor on private business activities. The office prepared a list of all of the Governor’s travel for private business activities, as well as public-purpose trips. During the two-year audit scope, the Governor’s staff incurred travel costs totaling $9,989 for two private book tours. Travel expenses totaled $4,054 on the first book tour (for the book titled, *I Ain’t Got Time To Bleed*) and $5,935 on the second book tour (for the book titled, *Do I Stand Alone*).

OLA issued a letter to the Legislative Audit Commission on July 29, 1999, concerning costs the state paid for the first book tour. We acknowledged that Minnesota law allowed the Governor’s office to pay the costs, but also said: “We are troubled that the state has incurred added costs—and may incur significantly more costs over the next three and a half years—simply because Governor Ventura is involved in private business activities.” We recommended that either the Governor personally or those contracting for his services pay any costs the state incurs because of the Governor’s private business activities. On the second book tour, the publisher paid the travel costs not only for the Governor but also for his security personnel. However, the state still paid costs incurred by staff from the Governor’s office (which, as noted above, amounted to $5,935). The Governor’s chief of staff told us that he assessed the need for office staff to accompany the Governor on the private trips and limited such travel to that considered necessary for official business.

Disclosure of Expense Reimbursements

Minn. Stat. Section 11A.075 requires the Governor and other members of the State Board of Investment to file an annual disclosure statement with the Campaign Finance and Public Disclosure Board. The statute requires disclosure of 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. The Governor’s Office monitors the Governor’s activities and notifies him when activities fall within the purview of this statute and require disclosure.

Audit Objectives and Methodology

We focused on the following objectives during our audit of travel expenses:

- Did the Office of the Governor’s internal controls provide reasonable assurance that vendors and employees were accurately paid for travel costs and that travel expenditures were properly recorded in the state’s accounting system and in compliance with the Office of the Governor’s compensation plan and management’s authorization?

- Did the office comply with the Governor's Office personnel plan, state travel policies, and other finance-related legal provisions?

To meet these objectives, we interviewed staff from the Office of the Governor to gain an understanding of the internal control structure and procedures for payment of travel claims. We analyzed travel costs, tested vendor invoices, and examined employee travel reimbursements. Due to errors noted during the initial testing of out-of-state travel, we expanded our audit coverage to include all out-of-state travel expenditures for the two-year audit period. We also reviewed the calendar year 1999 and 2000 expense reimbursement disclosures filed with the Campaign Finance and Public Disclosure Board.

Conclusions

The Office of the Governor's internal controls provided reasonable assurance that vendors and employees were accurately paid for travel costs and that these expenses were properly recorded in the accounting system. However, the office reimbursed some employees for certain meals they were not entitled to receive. It did not compare conference and travel itineraries to employee expense reimbursements to ensure that meals were not paid for twice. As a result, some employees were paid for meals, totaling $424, that had already been paid as part of the cost of a conference or through commercial transportation. In addition, we also noted that the office did not sufficiently document out-of-state travel. Employees did not always prepare the required out-of-state travel authorization form prior to incurring costs of a scheduled trip, and they did not properly document all circumstances surrounding their trip when extending the travel period.

For the items tested, except for the findings mentioned, the office complied with travel requirements of the Governor's Office personnel plan, state travel policies, and other finance-related legal provisions.

1. PRIOR AUDIT FINDING NOT RESOLVED: The Office of the Governor reimbursed some employees for meals they were not eligible to receive.

The Governor's Office reimbursed employees for certain meals that were already paid as part of the cost of a conference the employee attended or through commercial transportation. This concern was first identified in our audit of the prior administration and continues to be a problem. We compared conference invoices and travel itineraries for all out-of-state travel and found that employees were overpaid a total of $424 for the following types of exceptions:

- Employees attended out-of-state conferences and seminars that provided meals to the participants. The cost of the event, which the office paid directly, included the meals. However, staff also received reimbursement for these same meals through the office's expense reimbursement process.

- Staff used commercial airlines to attend out-of-state meetings or conferences. The office typically paid the costs of the airfare in advance. Depending on the flight time, the airlines may have provided meals during the flights. Some employees received reimbursement for the meals that were already paid as part of the airfare cost.

- Employees received reimbursement for meals without being in travel status. For instance, we found one employee claimed breakfast, but the flight did not leave until 9:45 a.m. The same employee also claimed dinner, but arrived back in town at 5:15 p.m.

The state's travel policy, applicable to all executive branch employees, states that employees are not eligible for additional reimbursements for meals when the cost of commercial transportation or the conference registration fee includes that meal. Both the travel policy and Governor's compensation plan require that the employee must be in travel status in order to be eligible for meal reimbursement. Employees are not eligible for breakfast unless they leave home before 6:00 a.m. or for dinner unless the employee returns home after 7:00 p.m.

Since this was a previous audit concern, we attempted to determine why meal overpayments continued to be a problem. We found that accounting staff office did not sufficiently scrutinize employee expense reimbursements. The office lacked a key control comparing travel and conference itineraries to employee expense reimbursements to ensure that meals are not paid for twice. In the past, the accounting staff performed this comparison and made any necessary adjustments to correct employee expense reports. Subsequent to the audit, the Governor's Office recovered the ineligible meal reimbursements that were paid to staff.

Recommendation

- *The Office of the Governor should improve controls to ensure compliance with state travel policies and its own compensation plan when reimbursing employees for meals. Accounting staff should compare conference and travel itineraries to employee expense reimbursements to ensure office employees are eligible for meal reimbursements.*

2. PRIOR AUDIT FINDING NOT RESOLVED: The Office of the Governor did not sufficiently document out-of-state travel.

The Office of the Governor's staff did not complete out-of-state travel authorization forms prior to incurring travel costs. The office also lacked sufficient documentation justifying claims for additional expenses they would not otherwise be eligible to receive.

- Staff did not complete the out-of-state travel authorization form prior to incurring costs. State travel policies require agencies to prepare out-of-state travel authorization forms at least ten days prior to the scheduled trip. The primary purpose of this form is to provide a cost estimate, justification of the trip, and to detail financial decisions to minimize travel costs. Our review of 16 authorization forms showed that on five occasions the office completed the form less than ten days prior to the trip. We recognize that the nature of the office's duties may require more immediacy in planning trips with less than ten days notice. However, we noticed instances where staff completed the form after purchasing airline tickets. For example, an employee purchased airline tickets on May 5, 2000, for a departure date of May 27, 2000. However, the out-of-state travel authorization form was completed and approved on May 26, 2000.

- Office staff did not adequately document justification for certain additional travel costs incurred. The office allowed employees to mix business and personal travel without ensuring that the state-paid expenses were directly related to the business portion of the trip. For example, two employees traveled to Portsmouth, New Hampshire to attend a conference from Wednesday to Friday. Rather than fly home Friday after the conference, they stayed over in Boston and flew home on Sunday. The office paid an additional $419 in meals and lodging costs for one individual and $96 in meals for the other. However, the staff did not provide a cost-benefit justification that the additional costs incurred were offset by lower airfare for a Sunday departure. These financial decisions should have been specified on the out-of-state travel authorization form. Also, we observed that at some seminars, the sponsoring organization made arrangements for a special dinner or outing (at the participant's expense) that exceeds the allowable meal limit. The employees claimed the increased cost of the special dinner or event, but did not provide documentation such as a special expense form. Without the required documentation, it appears that the employees exceeded the allowable meal limits.

Recommendations

- *To the extent practical, the Office of the Governor should complete the out-of-state travel authorization form at least ten days prior to a trip.*

- *The office should document financial travel decisions, such as employees combining business and personal travel, and justify the cost-benefit of incurring additional travel costs on the out-of-state travel authorization form.*

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Chapter 4. Administrative Expenditures

Chapter Conclusions

The Office of the Governor's internal controls provided reasonable assurance that it accurately paid administrative expenditures for rent, memberships, communications, supplies and equipment and that these transactions were authorized by management and properly recorded in the accounting system. However, the office did not monitor the personal use of cellular phones in a timely manner, and certain personal calls were not reimbursed. There are inconsistent executive branch policies regarding personal use of cellular phones. Also, the office needs to clarify certain contract responsibilities for additional costs incurred to air the Governor's radio show from remote locations. For the items tested, the Governor's Office complied with applicable procurement requirements and accurately billed and deposited reimbursements for the use of the Governor's residence.

In addition to payroll and travel expenses, the Governor's Office incurred administrative costs for rent, memberships, communications, supplies, and equipment. Certain costs for operating the Governor's residence were reimbursed through the Governor's Residence User Fund.

Rent

The Governor's Office rented office space in the State Capitol and in the Administration Building. Equipment and other miscellaneous items were rented for use at Capitol and Governor's residence functions. Office space was also rented for the Washington, D.C. office. Table 4-1 shows the annual rent expenditures incurred by the Governor's Office for fiscal year 2000.

Table 4-1
Rent Expenditures
Fiscal Year Ended June 30, 2000

Rent – State-Owned Space	$285,287
Rent – Washington D.C. Office	37,648
Miscellaneous Rental	31,747
Total	$354,683

Source: Minnesota Accounting and Procurement System (MAPS) for fiscal year 2000, as of September 8, 2000.

Membership Fees

The Governor's Office pays for national memberships that have a direct benefit to the State of Minnesota. Membership in these organizations provides a forum for states to discuss issues relating to shared resources and shared problems in an effort to jointly resolve the issues. The Legislature appropriated $107,000 to the Governor's Office for membership in the National Governors Association.

Communications

Communication expenditures include items such as network services, postage and mail, and delivery service. Network service includes telephone service, computer communications, cellular telephone use, fax charges, and pager charges. During the year ended June 30, 2000, the Governor's Office spent about $103,300 on communication services as shown in Table 4-2.

Table 4-2
Communications Expenditures
Fiscal Year Ended June 30, 2000

Network	$92,214
Postage, Mailing, and Shipping	9,724
Freight and Delivery	1,381
Total	$103,319

Source: Minnesota Accounting and Procurement System (MAPS).

Supplies and Equipment

The Governor's Office spent $159,961 for various supplies and $42,882 for equipment purchases made during the year ended June 30, 2000. The office purchased various office supplies, generally from the Central Stores Division of the Department of Administration, to support office operations, including items shipped to the Washington, D.C. office. 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 similar to previous administrations. The office also purchased awards, pictures, and flowers for public recognition or gratitude through the Governor's necessary expense account.

Governor's Residence

The State of Minnesota maintains and operates a Governor's residence at 1006 Summit Avenue in St. Paul. Its use is defined in Minn. Stat. Section 16B.27, subd. 1, 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.*

However, non-state functions are allowed if reimbursement is obtained and deposited in the Governor's Residence User Fund. Private 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 year 2000, the residence hosted 206 events with 51 of them being user fund events. During the audit period, the Governor's office collected approximately $81,000 in reimbursements for events held at the residence.

A residence manager plans and budgets all of the activities held at the residence. The residence manager oversees a full-time staff that cleans, prepares meals, and maintains the residence. The Governor's Residence Council is responsible for soliciting gifts for furnishings and the restoration of the residence. We did not examine the financial activities of the Governor's Residence Council as part of this audit.

Audit Objectives and Methodology

We focused on the following objectives during our audit of administrative expenditures:

- Did the Office of the Governor's internal controls provide reasonable assurance that it accurately paid administrative expenditures, obtained management authorization, and properly recorded transactions in the accounting system?

- Did the office comply with applicable procurement requirements and accurately bill and collect reimbursements for non-state events held at the Governor's residence?

To meet these objectives, we interviewed staff from the Office of the Governor and the Department of Administration to gain an understanding of the internal control structure over administrative disbursements and reimbursement procedures for the Residence User Fund. We compared rent payment transactions to authorized leases and membership payments to authorized invoices. We analyzed supply and equipment expenditures, performed detailed tests of transactions, and tested compliance with procurement requirements and management's authorization. We tested user fund transactions for proper billing and deposit of reimbursements for non-state events held at the Governor's residence.

Conclusions

The Office of the Governor's internal controls provided reasonable assurance that it accurately paid administrative expenditures for rent, memberships, communications, and supplies and equipment and that these transactions were authorized by management and properly recorded in the accounting system. However, the office did not monitor the personal use of cellular phones in a timely manner and certain personal calls were not reimbursed. There are inconsistent executive branch policies regarding personal use of cellular phones. Also, the office needs to clarify certain contract responsibilities for additional costs incurred to air the Governor's radio show from remote locations. For the items tested, the Governor's Office complied with applicable procurement requirements and accurately billed and deposited reimbursements for the use of the Governor's residence.

3. The Governor's Office did not effectively control cellular phone use.

The office did not routinely monitor its employees' personal use of cellular phones or require employees to fully reimburse the office for all personal cellular phone calls made. About 30 employees in the office have cellular telephones assigned to them. Our review of the cellular phone costs disclosed the following weaknesses:

- During the first two years of the Ventura administration, the office did not require its employees to review their cellular phone bills for personal calls made on a regular basis. However, in January 2001, the office worked with the employees to review the phone bills for an 18-month period from July 1999 through December 2000 and identify all personal calls they had made. As a result of this internal review, staff reimbursed the office a total of $2,041 for personal calls made in excess of their prescribed plan minutes. The office did not review the cellular phone records for the first six months of the administration.

- The office did not require its employees to reimburse the state for all of the personal cellular phone calls. The office's informal practice permitted employees to make personal calls without reimbursing the office as long as the personal calls did not exceed the individual cellular phone plan minute limits. For the period from October 2000 to December 2000, the office did not bill employees for 807 minutes. The office only required reimbursement for the personal phone calls over their cellular phone plan limit.

- The mixture of business and personal calls made it difficult to assign cellular phone plans to meet business needs. In an effort to better manage cellular phone costs, the office assigned employees to a specific plan that most closely matched their usage pattern. The office monitored the usage on a quarterly basis and modified individual plans based on each employee's usage. However, prior to October 2000, the office did not separate business from personal calls and, therefore, assigned employees to plans based on the total minutes used, not just business minutes. For example, during the quarter ending December 2000, an office analysis showed that employees made 2,624 minutes of personal calls. However, the office did not bill employees for 807 of those minutes because employees did not exceed their particular plan limit. Because the office based the assigned plans on both business and personal minutes called, employees could have been assigned to plans that included more minutes than required to do their jobs.

The office's cellular phone practices do not comply with the state's cellular phone policy governing executive branch agencies. Department of Finance Operating Policy #0907-04, issued in June 1995, states:

> Cellular telephones are for state use only. Agencies must review cellular billings on a monthly basis to ensure proper employee usage and cost effectiveness. Calls not directly related to the employee's job, agency or conditions of employment must be reimbursed by the employee.

Office of the Governor

The Governor's Office staff indicated that they developed their internal practice based on a policy developed by the Department of Administration effective November 15, 1997. The policy governed personal use of telephone, e-mail, and the Internet while at work but does not explicitly identify cellular phones. It permitted the occasional employee personal use of state equipment if it does not result in any additional costs or loss of time. The policy conflicts with the Department of Finance policy, which explicitly requires reimbursement of personal calls by employees. A clarification between the two policies is necessary.

During previous audits, we observed that office employees made a limited number of personal cellular calls and reimbursed the office for each personal call they made.

Recommendations

- *The Office of the Governor should improve controls over employee cellular phone use by:*
  - *minimizing personal cellular phone calls made by its employees; and*
  - *assigning appropriate plans to employees with plan minute limits based on the level of business use.*

- *The Office should work with the Departments of Finance and Administration to clarify state policies regarding personal use of cellular phones.*

4. The Governor's Office needs to clarify certain minor contract costs associated with the Governor's weekly radio talk show.

The current contract between the Governor's Office and a local radio station does not clearly address certain expenses related to the Governor's weekly radio show. The Governor's Office entered into a contract with WCCO to broadcast a weekly radio show. Normally, the Governor broadcasts the show locally, but occasionally, he will broadcast the show from various remote locations where he is conducting state business. Sometimes, the broadcasts from remote locations result in additional costs, such as obtaining a phone line to broadcast the show. During the audit, we found that the office paid for some of these costs totaling about $450. Although the contract does not specifically address these types of incidental costs, the contract does stipulate that WCCO "shall provide [the physical] equipment for remote broadcasts as needed." The office should work with WCCO to clarify responsibility for these costs.

Recommendation

- *The Governor's Office should clarify its contract with WCCO to determine which party is responsible for these incidental costs. If the radio station is determined to be responsible, the office should seek reimbursement for amounts paid.*

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Status of Prior Audit Issues
As of April 2001

Most Recent Audits

Legislative Audit Report 99-38, issued in July 1999, covered the two calendar years of the Governor Carlson Administration ending December 31, 1998. 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 also included a review of the transition funding for Governor-elect Ventura. The report contained three audit findings. Two findings concerning travel were not implemented and are included in this audit report. A third finding related to documentation supporting events held at the Governor's residence. This finding was implemented and resolved.

Legislative Audit Report 97-18, issued in April 1997, covered the two calendar years of the Governor Carlson Administration ending December 31, 1996. 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 report cited no audit issues.

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, and quasi-state organizations, such as the metropolitan agencies, or the State Agricultural Society, the state constitutional officers, or the judicial branch.

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June 21, 2001

James Nobles
Legislative Auditor
Office of the Legislative Auditor
First Floor South, Centennial Building
658 Cedar Street
St. Paul, MN 55155

Dear Mr. Nobles,

Thank you for the opportunity to respond to the findings and recommendations in the audit of the Governor's Office for the period January 1, 1999 through December 31, 2000. We understand the responsibility of the Governor's Office to establish and maintain policies and procedures that ensure internal control of fiscal activities and we believe that we have created a reasonable control environment under which good, sound financial management occurs.

With regard to each of the report's four recommendations, the Governor's Office had initiated corrective action even before the close of our audit, and we provide the following responses.

Recommendations and Responses

Recommendation #1
The Office of the Governor should improve controls to ensure compliance with state travel policies and its own compensation plan when reimbursing employees for meals. Accounting staff should compare conference and travel itineraries to employee expense reimbursements to ensure office employees are eligible for meal reimbursements.

Response
All meal reimbursements to employees in error have been corrected and the state has been fully reimbursed for these costs. In addition, our Administrative Services Manager has now implemented stronger internal controls to ensure that expense reports are properly reviewed and quality control measures are being used to verify that these controls are working properly.

Recommendation #2
To the extent practical, the Office of the Governor should complete the out-of-state travel authorization form at least ten days prior to a trip. The office should document financial travel decisions, such as employees combining business and personal travel, and justify the cost-benefit of incurring additional travel costs on the out-of-state travel authorization form.

Response
Our procedures require that all out-of-state travel be approved in advance by the Chief of Staff and/or the Director of Operations. We are confident that all trips have had prior approval. There were some instances where the travel authorization form was not completed or signed ten days before the trip. We have strengthened our processes to help ensure that the form is signed before obligations are incurred. Because of the nature of our work, it is impossible to guarantee that all trips made by this office can be approved at least ten days prior to travel. However, every effort is made to plan our trips in advance in order to take advantage of lower airfares and other travel costs.

When it saves the state considerable amounts of money to do so, the office requests employees to stay over a weekend. We have modified our procedures to make sure that we properly document these savings on the appropriate forms.

Recommendation #3
The Office of the Governor should improve controls over employee cellular phone use by minimizing personal cellular phone calls made by its employees, and assigning appropriate plans to employees with plan minute limits based on the level of business use. The office should work with the Departments of Finance and Administration to clarify state policies regarding personal use of cellular phones.

Response
The Governor's Office properly assessed each employee's need for a cellular phone early on in the administration. We also assessed, based on business need, the most cost-effective rate plans to be used. At the same time, we informed employees, per a 1997 Department of Administration policy on electronic communications, that brief and occasional personal use of cell phones was acceptable if it fell within the package of minutes purchased and did not result in added cost to the state. Because of heavy workloads, we did not implement a review of monthly cell phone bills until November 2000. At that time, each employee reviewed cell phone bills back to July 1, 1999, identified personal calls, and reimbursed the state for all calls which resulted in

added cost to the state. On a regular basis, the office reviews cell phone usage and modifies employee plans to provide the state with the most cost effective plan available based on business needs.

Recommendation #4
The Governor's Office should clarify its contract with WCCO to determine which party is responsible for these incidental costs. If the radio station is determined to be responsible, the office should seek reimbursement for amounts paid.

Response
The Governor's Office agrees that the first contract with WCCO lacked clarification about who was responsible for telephone line charges associated with the radio show, "Lunch with the Governor," when it is broadcast remotely. It was the intent of the Governor's Office to pay for such charges since it is our responsibility to decide where the radio show is broadcast each week. The new contract, currently being drafted, includes clear language about who will pay for these expenses.

We are serious about our management responsibilities of the Governor's Office and intend to use your recommendations to further improve our control environment. If you have any additional questions, please contact me at your convenience.

Sincerely,

/s/ Steven Bosacker

Steven Bosacker
Chief of Staff