OLA **OFFICE OF THE LEGISLATIVE AUDITOR**
STATE OF MINNESOTA

FINANCIAL AUDIT DIVISION REPORT

Office of the Governor

Internal Controls and Compliance Audit

January 1, 2009, through December 31, 2010

May 26, 2011 **Report 11-15**

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Representative Michael Beard, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

The Honorable Governor Mark Dayton
Office of the Governor

The Honorable Tim Pawlenty
Former Governor of Minnesota

This report presents the results of our internal controls and compliance audit of the Office of the Governor for the period January 1, 2009, through December 31, 2010. The scope of the audit included the last two years of Governor Pawlenty's term of office.

The audit was conducted by Jim Riebe, CPA (Audit Manager), Pat Ryan (Auditor-in-Charge), and assisted by auditors Ted Bethell and Shanda Wilhelmy, CPA.

This report is intended for the information and use 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 released as a public document on May 26, 2011.

We received the full cooperation of the Office of the Governor's staff while performing this audit.

James R. Nobles
Legislative Auditor

Cecile M. Ferkul, CPA, CISA
Deputy Legislative Auditor

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Report Summary

Conclusion

The Office of the Governor's internal controls were adequate to ensure that the office safeguarded its financial resources, accurately paid employees and vendors in accordance with management's authorizations, complied with finance-related legal provisions, and created reliable financial data. For the items tested, the Office of the Governor complied with finance-related legal requirements over its financial activities.

The office implemented three of our four prior audit recommendations.[1] It improved controls over its receipt process and strengthened controls to ensure compliance with employee travel expense reimbursement policies and procedures. In addition, the office developed an interagency agreement to formalize its relationship with the Office of Enterprise Technology. The office did not implement our recommendation to better track its fixed asset purchases; however, because of the infrequency of these transactions during our audit scope, we have not repeated this finding in this report.[2]

Audit Objectives and Scope

Objectives	Period Audited
• Internal Controls	January 1, 2009 through December 31, 2010
• Finance-related Legal Compliance	

Programs Audited

- Payroll Expenditures
- Travel Expenditures
- Administrative Expenditures
- Governor's Residence Receipts
- Interagency Personnel Funding

[1] Office of the Legislative Auditor, Financial Audit Division, Report 09-22, *Office of the Governor Internal Control and Compliance Audit*, issued June 12, 2009.
[2] The Office of the Governor purchased three assets totaling about $25,000 during the two-year period ending December 31, 2010.

Office of the Governor

Agency Overview

Article V of the *Minnesota Constitution* established the Office of the Governor in the executive branch of state government. The office includes the Governor, Lieutenant Governor, and their employees. The office operates under various statutes but principally under the authority of *Minnesota Statutes* 2010, Chapter 4. The Governor and Lieutenant Governor are elected jointly by a state-wide vote and serve 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. This audit covers the last two years of Governor Pawlenty's term of office. In November 2010, Mark Dayton was elected Governor and took office in January 2011, with Yvonne Prettner Solon as the Lieutenant Governor.

The Governor is the state's chief executive and is responsible for the general direction, administration, and supervision of state government's executive branch. The Lieutenant Governor's role is to assist the Governor in carrying out the functions of the executive branch.

The Office of the Governor is primarily funded through a direct appropriation from the state's General Fund. The Department of Public Safety provided executive protection, and the Office of Enterprise Technology provided computer network and database support; both agencies funded these expenses from their own appropriations. The office also received $18,500 from private parties and other state agencies for the reimbursement of costs for the use of the Governor's residence in fiscal year 2010.

In addition to its General Fund appropriation, 20 state agencies and the Metropolitan Council provided resources to the office to support personnel costs involved in legislative, cabinet affairs, and federal affairs activities. The office accounted for this activity in a special revenue fund. For the biennium ending June 30, 2011, state law limited the amount to $702,000 each fiscal year and required an annual report to certain legislators and legislative committees detailing the personnel costs supported by appropriations to other agencies.[3] The Governor's Office also accounted for some miscellaneous reimbursements within the special revenue fund, including a reimbursement from the Department of Administration for groundskeeping services at the Governor's residence.

[3] *Laws of Minnesota* 2009, chapter 101, article 1, section 4. A copy of the report is available at the following website: http://www.leg.state.mn.us/edocs/edocs.aspx?oclcnumber=45612816.

Table 1 summarizes the office's financial sources and uses for the period July 1, 2009, through June 30, 2010.

Table 1
Summary of Financial Activity
Fiscal Year 2010[1]

Sources	General Fund	Special Revenue Fund[2]
Operating Appropriation	$3,590,000	$ 0
Interagency Agreements	0	684,528
Reverted/Cancelled to the General Fund[3]	(145,000)	(10,000)
Balance Forward from Fiscal Year 2009	0	6,585
Total Sources	$3,445,000	$681,113
Uses		
Payroll	$2,500,811	$491,013
Rent	279,069	33,951
Other Administrative Costs	156,654	147,955
Travel	20,822	1,140
Balance Forward to Fiscal Year 2011	487,644	7,054
Total Uses	$3,445,000	$681,113

[1] Our audit scope was January 1, 2009, through December 31, 2010. This scope included the last half of fiscal year 2009, all of fiscal year 2010, and the first six months of fiscal year 2011. This table presents activity from the only full fiscal year in our audit scope and not the full scope of financial activity subject to our audit.

[2] State law allows the Office of the Governor to receive funding from other state agencies to support personnel costs involved in legislative, cabinet, and federal affairs activities. Starting in fiscal year 2010, the law limited the amount the office could receive to $702,000. The office used some of these funds to operate and staff an office in Washington, D.C. The Governor closed that office effective July 2010.

[3] *Laws of Minnesota* 2010, chapter 215 article 12, section 4 and *Laws of Minnesota* 2010, first special session, chapter 1, article 12, section 3.

Source: Minnesota Accounting and Procurement System.

Objectives, Scope, and Methodology

Our audit of the Office of the Governor's payroll, travel, administrative expenditures, and selected revenues focused on the following objectives for the period of January 1, 2009, through December 31, 2010:

- Were the office's internal controls adequate to ensure that it safeguarded its financial resources, accurately paid employees and vendors in accordance with management's authorizations, complied with finance-related legal provisions, and created reliable financial data?

- Did the office comply with finance-related legal requirements?
- Did the office implement the prior audit recommendations?

To answer these questions, we gained an understanding of the office's financial policies and procedures. We considered the risk of errors in the accounting records and noncompliance with relevant legal requirements. We analyzed accounting data to identify unusual trends or significant changes in financial operations. We examined samples of transactions and evidence supporting the office's internal controls and compliance with laws, regulations, policies, and contracts.

We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives.

We used various criteria to evaluate internal controls and compliance. As our criteria to evaluate agency controls, we used the guidance contained in the *Internal Control-Integrated Framework*, published by the Committee of Sponsoring Organizations of the Treadway Commission.[4] We used state and federal laws, regulations, and contracts, as well as policies and procedures established by the departments of Management and Budget and Administration and the office's internal policies and procedures as evaluation criteria over compliance.

Conclusion

The Office of the Governor's internal controls were adequate to ensure that the office safeguarded its financial resources, accurately paid employees and vendors in accordance with management's authorizations, complied with finance-related legal provisions, and created reliable financial data. For the items tested, the Office of the Governor complied with finance-related legal requirements over its financial activities.

[4] The Treadway Commission and its Committee of Sponsoring Organizations were established in 1985 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. The resulting *Internal Control-Integrated Framework* is the accepted accounting and auditing standard for internal control design and assessment.

The office implemented three of our four prior audit recommendations.[5] It improved controls over its receipt process and strengthened controls to ensure compliance with employee travel expense reimbursement policies and procedures. In addition, the office developed an interagency agreement to formalize its relationship with the Office of Enterprise Technology. The office did not implement our recommendation to better track its fixed asset purchases; however, because of the infrequency of these transactions during our audit scope, we have not repeated this finding in this report.[6]

[5] Office of the Legislative Auditor, Financial Audit Division, Report 09-22, *Office of the Governor Internal Control and Compliance Audit*, issued June 12, 2009.
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