Office of the Governor

Financial-Related Audit
For the Two Calendar Years Ended December 31, 1998

July 1999

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Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

99-38

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SUMMARY

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Office of the Governor

Financial-Related Audit
For the Two Calendar Years Ended December 31, 1998

Public Release Date: July 23, 1999 No. 99-38

Agency Background

Article V of the State Constitution established the Office of the Governor as part of the executive branch of state government. The Governor and Lieutenant Governor are elected jointly for a four-year term, which begins the first Monday in January following the election. Governor Arne Carlson and Lieutenant Governor Joanne Benson were elected on November 8, 1994 and sworn into office on January 9, 1995. This was the second term for Governor Carlson. Governor Jesse Ventura and Lieutenant Governor Mae Schunk were elected on November 10, 1998 and sworn into office on January 4, 1999. The Office of the Governor received annual General Fund appropriations of approximately $3.8 million for fiscal years 1998 and 1999.

Audit Scope and Conclusions

By Legislative Audit Commission policy, the Office of the Legislative Auditor audits the constitutional offices twice during each term. This audit focused on the financial activities during the second half of the Governor Carlson administration. Our audit scope included a review of payroll, travel, rent, membership dues, supplies and equipment, and reimbursements for use of the Governor's residence for the period from January 1, 1997, through December 31, 1998.

The audit found that the Office of the Governor designed and implemented internal controls to provide reasonable assurance that payroll, travel, and supplies and equipment were properly paid, authorized and recorded, and complied with applicable finance-related legal provisions. However, we questioned $407 paid to certain employees who were reimbursed for meals they were not eligible for. We also found that the office did not always properly plan or document out-of-state travel. Finally, the office did not retain the events log identifying all public and non-state functions at the Governor’s residence. Without such documentation, the office cannot ensure it billed out all non-state events for the use of the Governor’s residence.

The audit also found that transition funds provided by Governor Carlson’s office and the Department of Administration to Governor-elect Ventura were used appropriately and properly recorded in the accounting system. Donations solicited by Governor-elect Ventura were subsequently determined to be unneeded and properly returned to the donors.

In a written response, a representative of former Governor Carlson indicated that they agreed with the report’s findings. They felt the issues identify certain policy concerns that should be addressed for the benefit of future administrations. In a separate response, the Governor Ventura administration agreed to provide improved controls that will remedy the concerns identified.

STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

JAMES R. NOBLES, LEGISLATIVE AUDITOR

Representative Dan McElroy, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

The Honorable Jesse Ventura
Governor of Minnesota

The Honorable Arne Carlson
Former Governor of Minnesota

We have audited the Office of the Governor for the period January 1, 1997, through December 31, 1998, as further explained in Chapter 1. Our audit scope included payroll, travel, rent, membership dues, supplies and equipment, and reimbursements for use of the Governor's residence.

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 July 23, 1999.

James R. Nobles	Claudia J. Gudvangen
Legislative Auditor	Deputy Legislative Auditor

End of Fieldwork: April 21, 1999

Report Signed On: July 19, 1999

Office of the Governor

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Audit Participation

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

Claudia Gudvangen, CPA	Deputy Legislative Auditor
Brad White, CPA, CISA	Audit Manager
David Poliseno, CPA, CISA	Auditor-In-Charge
Dale Ogren, CPA, CISA	Auditor
Jill Weber	Auditor

Exit Conferences

We discussed the findings and recommendations with the following representatives of the current administration of the Governor's Office at the exit conference held on July 8,1999:

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

We also discussed the findings and recommendations with the following representatives of the former administration of the Governor's Office at an exit conference held on July 9, 1999:

Arne Carlson	Former Governor
Robert Borhart	Legal Counsel

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 Minn. Stat. 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 and supervision of the affairs of the state. Specifically, the Governor is responsible for administration of the executive branch of state government, development of legislative proposals, and making various appointments. The Lieutenant Governor's chief duty is to assist the Governor in carrying out the executive branch functions. The Governor has also delegated other duties to the Lieutenant Governor.

Governor Arne Carlson and Lieutenant Governor Joanne Benson were elected on November 8, 1994 and sworn into office on January 9, 1995. This was the second term for Governor Carlson. Jesse Ventura and Mae Schunk were elected Governor and Lieutenant Governor in November 1998 and took office on January 4, 1999. Governor Carlson and the Department of Administration provided transition funding for Governor-elect Ventura.

The Office of the Governor funds its activities through General Fund appropriations. The Legislature appropriated $3,816,000 and $3,884,000 for fiscal years 1998 and 1999. The office also receives some receipts as reimbursements to the Governor's Residence User Fund, as shown in Chapter 4. In addition, the Governor utilized personnel of other state agencies in special situations as discussed in Chapter 3. Table 1-1 below includes expenditures for fiscal year 1998 for the office.

Table 1-1
Office of the Governor
Expenditures Summarized by Type
Fiscal Year 1998

Expenditure Type	Amount
Payroll	$ 2,571,215
Rent	297,326
Membership Fees	166,750
Supplies and Equipment	151,449
Travel	114,375
Other Expenditures	248,674
Total Expenditures	$ 3,549,789

Note 1: Amounts include financial activity for both the Governor and Lieutenant Governor.
Note 2: Approximately $266,000 of unexpended funds carried forward and was made available in fiscal year 1999.

Source: Expenditures recorded on the Minnesota Accounting and Procurement System (MAPS) for fiscal year 1998.

Office of the Governor

By Legislative Audit Commission policy, the Office of the Legislative Auditor audits each of the constitutional officers twice during each term. This audit focused on the financial activities during the last two calendar years of the Governor Carlson administration ending December 31, 1998.

Chapter 2. Payroll and Travel Expenditures

Chapter Conclusions

The Office of the Governor designed and implemented internal controls to provide reasonable assurance that payroll and travel expenditures were properly paid and recorded, and in compliance with the office's compensation plan and management's authorization. For the items tested, except for the following findings, the office complied with its compensation plan and state requirements. We noted that the Governor's Office inappropriately paid certain employees for meals they were not eligible for. In addition, office staff did not complete the out-of-state travel authorization form in a timely manner and did not properly document all circumstances surrounding their trip.

Payroll

The Office of the Governor employs 54 full-time employees. The office has four separate locations with 40 employees at the capitol, four employees at the Department of Administration, seven employees at the Governor's residence, and three employees in Washington, D.C. For fiscal year 1998, the office disbursed about $2.6 million in payroll expenditures. Minnesota Statutes authorize a separate compensation 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.

Other employees worked for the Office of the Governor and were paid by various state agencies. The office reported these expenditures to the Legislature annually, as required by Minnesota Laws of 1997, Chapter 202, Article 1, Section 3. Table 2-1 shows the personnel costs paid by other state agencies to support the operations of the Governor's Office. Additionally, the Department of Public Safety provided security for the Governor and the residence.

Table 2-1
State of Minnesota
Governor's Office Personnel Costs Paid by Other State Agencies
For the Fiscal Year Ended June 30, 1998

State Department	Amount
Department of Health	$38,492
Department of Human Services	38,492
Minnesota Planning	35,917
Administration (Plant Management)	34,615
Children, Families & Learning	1,322
Total	$148,838

Source: Office of the Governor's report to the commissioner of Finance for personnel costs paid by other state agencies.

Office of the Governor

Travel

The Governor, Lieutenant Governor, and staff incur travel costs while conducting state business. 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. The office documents the purpose and approval for out-of-state travel in advance of each trip. The employee compensation plan establishes criteria for when an employee is eligible to receive reimbursement from the state. The state reimbursed employees for travel costs such as transportation, meals, lodging, and other miscellaneous costs. The office directly paid for certain travel costs associated with the trips, such as commercial transportation.

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. Table 2-2 shows the travel costs paid by the Governor's Office for fiscal year 1998.

Table 2-2
Office of the Governor
Travel Expenditures
Fiscal Year Ended June 30, 1998

Description	Amount
Out-of-State Travel	$ 74,808
In-State Travel	29,961
Motor Pool Rentals	9,607
Total	$114,376

Source: Minnesota Accounting and Procurement System (MAPS).

In addition to these costs, the Governor and his staff accompanied other state agency staff on trips where the state agency deemed the Governor's presence essential. Such trips included those for economic development and securing the state's bond rating, which were paid by the Departments of Trade and Economic Development and Finance. The state agency requesting the Governor's attendance paid the costs of the trip out of its own appropriation.

Audit Objectives and Methodology

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

- Did the Office of the Governor design and implement internal controls to provide reasonable assurance that payroll and travel expenditures were properly paid and recorded, and in compliance with the Office of the Governor compensation plan and management’s authorization?

- Did payroll and travel expense transactions comply with the Governor’s Office compensation plan and state regulations, and salaries established by the compensation council?

Office of the Governor

To meet these objectives, we interviewed staff from the Office of the Governor and the Department of Administration to gain an understanding of the procedures for processing payroll and travel claims. We performed analytical reviews of detailed payroll transactions and biweekly balances and verified that hours were supported by authorized timesheets for hours worked and leave taken. We compared the Governor and Lieutenant Governor's salaries to the amounts authorized by the compensation council and reviewed staff salary levels and pay increases for compliance with the Governor's Office compensation plan. We also tested employee travel reimbursements for compliance with the plan. Due to errors noted during initial travel tests, we expanded our travel work to include all out-of-state travel expenditures.

Conclusions

Our audit found that the Office of the Governor designed and implemented internal controls to provide reasonable assurance that payroll and travel expenditures were properly paid and recorded, and in compliance with the office's compensation plan and management's authorization. For the items tested, except for the following noncompliance observations, the office accurately paid its employees and complied with its compensation plan and state requirements. Our review noted that the office paid certain employees for meals they were not eligible for. In addition, office staff did not complete the out of state travel authorization form in a timely manner and did not properly document all circumstances surrounding their trip.

1. The Office of the Governor reimbursed certain employees for meals they were not eligible for.

The Office of the Governor improperly reimbursed certain employees for meals when attending out-of-state conferences and seminars. The office paid meal allowances when meals were provided either by a seminar the employee attended or served on the employee's airplane flight. We also found instances where the office reimbursed employees for meals before the trip began and after arrival home. Our tests determined that a total of $407 was erroneously paid to employees. Governor Carlson repaid the amount, in question, on behalf of his staff. The following types of exceptions were noted:

- Employees attended out-of-state conferences and seminars that generally provided meals to the participants. The meals generally included breakfasts and lunches. Occasionally, the conference or seminar sponsored a formal dinner as part of the event. We found that employees received reimbursement for the cost of the meals already included in the conference or seminar fee paid by the office.

- Staff used commercial airlines to attend out-of-state meetings or conferences. Depending on the flight time, the airlines generally provided meals during the flights. We found that employees received reimbursement for the cost of the meals provided during the airplane flight.

- Employees received reimbursement for meals without being in travel status. For instance, we found one employee claimed breakfast and lunch reimbursement totaling $18, but the employee's flight did not depart from Minneapolis until 1:15 p.m.

The state's travel policy, which applies 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 state's travel policy and the Governor's compensation plan require that the employee must be in travel status in order to claim reimbursement for meals. Employees are not eligible for breakfast unless the employee leaves home before 6:00 a.m., or for dinner unless the employee returns home after 7:00 p.m. Further, the policy does not allow the employee to claim reimbursement for lunch unless the employee is required to be more than 35 miles from their normal work station over the normal noon meal period.

We noted that most of the overpayments occurred during fiscal year 1998, after personnel changes occurred in the accounting staff assigned to the Governor's office by the Department of Administration. Many employee expense reports for fiscal year 1997 originally contained some of the same errors. However, those travel expense forms showed numerous corrections made by the either the employee's supervisor or the accounting staff before processing the claim. We did not observe the same level of scrutiny and revisions by new accounting staff for fiscal year 1998.

Recommendation

- *The Office of the Governor should follow applicable state travel policies and its own compensation plan when reimbursing employees for meals. Administrative staff should more thoroughly review employee expense reports and compare them to travel itineraries and conference agendas to ensure staff eligibility for meal reimbursements.*

2. The Office of the Governor did not always sufficiently plan or document out of state travel.

Office of the Governor staff incurred additional airfare costs due to untimely planning of out-of-state trips. In addition, the out-of-state travel authorization forms did not always contain sufficient documentation about the trip to substantiate additional travel costs incurred.

- Office staff did not plan some out-of-state trips far enough in advance. The state requires that the agencies prepare out-of-state travel authorization forms at least ten days in advance of the trip. Our review noted that the office generally prepared those forms less that one week in advance of the trip. The failure to plan the trips in advance resulted in significant increased airplane ticket charges. We generally noted that trips planned at least two weeks in advance cost about $300 to $400, while those planned less than one week cost around $1,000. We recognize that the nature of the Governor's duties and responsibilities does not always allow for sufficient advance planning. The Governor or his staff often made trips to Washington, D.C. at the direction of the federal government, for such things as meetings or hearings. The office could not reasonably anticipate these trips. However, the staff often attended conferences that were known well in advance and should be better planned to reduce travel costs.

- Office staff did not adequately document the out-of-state travel authorization forms for certain additional travel costs incurred. The office allowed employees to mix business and personal travel without ensuring that the state only paid for expenses that directly related to the business portion of the trip. For instance, an employee attended a conference in Las Vegas that ended at noon on Friday, but the employee did not return to Minnesota until the next day. The office paid the additional meals and lodging charges of $128. The out of state authorization form did not provide a cost/benefit analysis justifying that the additional costs were due to a lower airfare on the following day. Also, if the extended stay was business related, the out of state authorization form did not provide documentation to support it.

Office staff generally make their own travel arrangements. Typically, lodging and meals are reimbursed to the employee while airfare is directly paid by the office. Out-of-state travel is authorized by the Governor's chief of staff and office manager, and forwarded to the administrative services unit for payment. The office incurred about $110,000 in out-of-state travel costs during the two-year audit period. The office could have saved a portion of these travel costs by planning trips at least ten days in advance of the trip to take advantage of cheaper airfares.

Recommendations

- *The Office of the Governor should complete the out-of-state travel authorization form at least ten days prior to the trip. Office staff should plan trips sufficiently in advance to take advantage of reduced airfares.*

- *The Office of the Governor should document events, 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. The office should document an analysis of expenses to ensure no additional costs are incurred as a result of personal travel.*

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Chapter 3. Administrative Expenditures

Chapter Conclusions

The Office of the Governor accurately paid and recorded rent based on authorized lease agreements and memberships based on amounts invoiced by various organizations. The office designed and implemented internal controls to provide reasonable assurance that supply and equipment transactions were accurately paid and recorded in the accounting system and in compliance with applicable procurement requirements and management's authorization. For the items tested, the Governor's Office accurately billed and deposited reimbursements for the use of the Governor's residence. However, the residence did not retain documentation to ensure it billed out all non-state events for the Residence User Fund.

In addition to salaries and travel expenses, the Governor's Office incurred other administrative costs for rent, department membership dues, and supplies and equipment. Certain costs for operating the Governor's residence are reimbursed through the Governor's Residence User Fund.

Rent

The Governor's Office rented office space and equipment and also rented miscellaneous items primarily used for functions at the Governor's residence. For local operations, the office rented space in the State Capitol and in the Administration Building. It also rented space for its Washington, D.C. office. Table 3-1 shows the annual rent expenditures incurred by the Governor's Office for fiscal year 1998.

Table 3-1
Office of the Governor
Summary of Rental Expenditures
For the Year Ended June 30, 1998

Description	Amount
Rent – State-Owned Space	$244,393
Rent – Washington D.C. Office	37,399
Miscellaneous Rental	15,534
Total	$297,326

Source: Minnesota Accounting and Procurement System (MAPS).

Office of the Governor

Membership Fees

The Governor's Office pays for national memberships that have a direct benefit to the state and not just the Governor. 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 funds to the Governor's Office for membership in the National Governors Association and the Council of Great Lakes Governors. In addition, the office funded a third membership, in the Upper Mississippi River Basin Association, from its regular appropriation. The Office of the Governor paid $166,750 for national memberships, dues, and fees during fiscal year 1998 as shown in Table 3-2.

Table 3-2
Office of the Governor
Summary of Membership Dues and Fees
For Fiscal Year 1998

Membership Organization	Amount
National Governors Association	$100,000
Upper Mississippi River Basin Association	35,000
Council of Great Lakes Governors	30,000
Other	1,750
Total	$166,750

Source: Minnesota Accounting and Procurement System (MAPS).

Supplies and Equipment

The Governor's Office spent $151,449 for various supplies and equipment during the year ended June 30, 1998. The office purchased various office supplies, generally from the Central Stores Division of the Department of Administration, to support office operations. It also purchased and shipped office supplies 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 state for the food his family consumed based on a monthly formula. 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 two wedding receptions, nonpolitical fund raising events, various political meetings, events to honor various dignitaries, and a high school dance. The Governor's office collected reimbursements of approximately $72,000 for events held during the audit period.

A residence manager plans and budgets all of the activities held at the residence. The manager oversees seven full-time staff that clean, prepare meals, and maintain 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. However, we recently conducted a separate audit of the council for the period July 1, 1995, through December 31, 1998.

Audit Objectives and Methodology

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

- Did the Office of the Governor accurately disburse and properly record rents and memberships in accordance with lease agreements and amounts invoiced?

- Did the Office of the Governor design and implement internal controls over supplies and equipment to provide reasonable assurance that expenditures were accurately paid and recorded in the accounting system, and in compliance with applicable procurement requirements and management's authorization?

- Did the Office of the Governor properly bill and collect reimbursements for non-state events held at the 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 disbursement process 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 residence.

Conclusions

The Office of the Governor accurately paid and recorded rent based on authorized lease agreements and memberships based on amounts invoiced by national and Midwest organizations. The office designed and implemented internal controls to provide reasonable assurance that supply and equipment purchases were accurately paid and recorded in the accounting system and in compliance with applicable procurement requirements and management's authorization. For the items tested, the Governor's Office accurately billed and deposited reimbursements for the use of the Governor's residence. However, the residence did not retain documentation to ensure it billed out all non-state events as discussed in the following finding.

3. The Office of the Governor did not retain documentation to ensure that all non-state events were properly billed out.

The Office of the Governor did not retain a control log that identified all formal events held at the Governor's residence. The log distinguished public versus private events and provided management assurance that all non-state events were billed out. The office has a structured process to plan, budget, and accumulate costs for billing out non-state events once identified as reimbursable. However, the residence manager did not retain the master list of events nor retain documentation supporting events that were not reimbursed. Typically, all other financial records are transmitted to the accounting section of the Governor's office. The event log should be forwarded and retained in a similar fashion.

The Governor's Office Operating Procedure 06:06:01 requires users to reimburse the Governor's Office for events that do not serve a state benefit or purpose. With input from the Governor and his family, the residence manager schedules events to be conducted at the residence. By reviewing the residence budget and purpose of the event, the manager decides whether the Governor's Office will fund a specific event or require the user to reimburse the cost of the event. Without documentation identifying all events held at the residence, the office could not determine if it billed out all non-state events considered reimbursable.

Recommendation

- *The Office of the Governor should retain the events log identifying both state and non-state events held at the residence. The log should be forwarded to the accounting section for review and storage.*

Chapter 4. Governor-Elect Transition Funding

Chapter Conclusions

Governor-elect Ventura received funding from Governor Carlson and the Department of Administration to pay for transition office operating costs. The Governor-elect also solicited donations which were subsequently determined to be unneeded and properly returned to the donors or, if anonymous, deposited into the state's General Fund. We also found that the Governor's Office and the Department of Administration properly procured goods and services, and accurately paid vendors and recorded transition office expenditures in the accounting system.

Jesse Ventura won the November 1998 election for Governor and was sworn into office on January 4, 1999. In order to be fully operational by January, Governor-elect Ventura needed to use the interim time to begin assembling his administration. He had to hire staff and prepare for the upcoming legislative session. He also attended out-of-state meetings held for new governors. To accomplish these activities, the Governor-elect formed a transition team. Because Governor-elect Ventura did not take office until January, he could not use his portion of the Governor's Office appropriation to fund activities during the interim.

To help fund transition costs, the Department of Administration received an appropriation from the state Legislature. The department allocated $50,000 to the Governor-elect's transition office. The department had the responsibility to ensure that the office spent the funds in accordance with state guidelines. The department paid the bills and recorded the transactions on the state's accounting system (MAPS). The entire $50,000 was used for transition office costs.

The Governor-elect concluded that $50,000 would not be sufficient to fund his transition costs and he solicited donations from the general public. He requested that individual donations not exceed $2,000, and specified that he would return unneeded funds. The Governor-elect raised donations totaling $113,323 to fund the transition. Subsequently, however, the Governor-elect determined he did not need the donations and the Department of Administration returned them, without interest, to the donors in March 1999. The department deposited $22 from two anonymous sources, and the interest earned on the donations, to the General Fund.

Governor-elect Ventura did not need the donation funding because Governor Carlson authorized the use of an additional $100,000 for transition activities of the Governor-elect. As of March 1999, the transition office spent $85,415 and had outstanding obligations of $3,536.

The Governor-elect spent the transition money on administrative expenditures, primarily for payroll costs. Table 4-1 summarizes the expenditures paid by the Governor's Office and Department of Administration.

Table 4-1
Governor-Elect Ventura Transition Funding
Summary of Expenditures
March 1999

Expenditure Type	Department of Administration	Governor's Office	Total
Personal Services	$43,055	$48,193	$91,248
Rents and Leases	644	2,822	3,466
Repairs	78	5,399	5,477
Printing and Binding	0	1,612	1,612
Communications	1,141	8,028	8,169
Travel – In State	656	665	1,321
Travel – Out of State	2,333	0	2,333
Supplies and Materials	1,766	10,277	12,043
Equipment	0	463	463
Other Operating Costs	327	11,492	11,819
Total Expenditures	$50,000	$88,951	$138,951

Source: Transition expenditure and obligation reports prepared by the Governor's office staff.

Audit Objectives and Methodology

We focused on the following objectives during our review of transition expenditures for the Governor-elect:

- What funding sources were obtained from the former Governor's administration to finance transition office expenditures of the Governor-elect?
- Did the Department of Administration properly account for and process transition donations?
- Did the Office of the Governor and Department of Administration properly procure goods and services, accurately pay vendors, and properly record transition office expenditures in the accounting system?

To meet these objectives, we interviewed staff from the Office of the Governor and Department of Administration to gain an understanding of transition funding sources and the disbursement process. We performed tests of detailed transactions and balances. We reviewed documentation supporting the accounting transactions, substantiated account balances, and determined the validity of summary information.

Conclusions

Governor-Elect Ventura received funding from Governor Carlson and the Department of Administration to pay transition office expenditures. The Governor-Elect also solicited donations which were subsequently determined to be unneeded and properly returned to the donors. The interest earned on these donations and $22 from anonymous sources were deposited into the General Fund. We concluded that the Governor's Office and the Department of Administration properly procured goods and services, and accurately paid vendors and recorded transition office expenditures.

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Status of Prior Audit Issues
As of May 1999

Most Recent Audits

<u>Legislative Audit Report 97-18,</u> 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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ROBERT J. BORHART, ESQ.
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July 19, 1999

Mr. James Nobles
Legislative Auditor
Office of the Legislative Auditor
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658 Cedar Street
St. Paul, Minnesota 55155

Re: Audit of Office of Governor for Period From January 1, 1997 through December 31, 1998

Dear Mr. Nobles:

I write to you on behalf of former Governor Arne H. Carlson and his administration regarding the above-referenced audit report. We believe the report accurately reflects that the Office properly paid, authorized and recorded its expenses and payroll according to applicable legal provisions. However, we believe there are some policy concerns that should be addressed for the benefit of future administrations, as well as clarifications to certain report findings.

The Carlson Administration saved a great deal of taxpayer money from its appropriated funds. As your report states in Table 1-1, Note 2, approximately $266,000 in the Governor's Office budget was not spent and was "carried over" into the next fiscal year. Governor Carlson also appropriated $100,000 of "surplus" office funds to then Governor-elect Ventura during November and December, 1998, to fund his transition office. (Report, Chapter 4.) Those savings represent nearly 10% of the appropriated funds for the Governor's Office. We believe prudent decisions, efficient operations and a lean staff enabled us to save those taxpayer funds.

We note the report found only three issues that raised suggestions for future improvement. We address those findings in the order presented in the report.

Audit Finding Number 1:

The audit concludes that $407 in improper meal reimbursement was reported by office staff. We were informed that employees personally repay those improper reimbursements through their future paychecks or by personal check to the State. However, Governor Carlson instead personally submitted a $407 check directly to the Department of Administration on behalf of his staff.

The improper reimbursements occurred when an employee charged a lunch (or dinner) on a given day, even though a "meal" was served on an airplane. Or, an employee charged for a lunch or dinner on a given day, even though a meal was provided at a conference attended by the employee.

Though the amount in question is nominal and has been paid in full by the Governor, we note three issues regarding this finding. First, whether a reimbursement itself was improper is not entirely clear. For example, on very short notice, one employee traveled to Washington for an appearance before a congressional committee. The plane ticket indicated a "lunch" provided; however, that flight left almost four hours late, and the crew did not serve the meal. The employee ate in the airport instead, and obtained reimbursement. We believe this should be proper. Yet, because the ticket indicated a meal, your audit listed the reimbursement as improper.

Second, the current reimbursement rules may be too rigid to provide for extenuating circumstances faced by a Governor and senior staff members. Frequently, when in Washington, Governor Carlson Governor met with senators, representatives, other governors, and/or cabinet secretaries during time scheduled for a conference meal. These meetings seek to advance the State's interests at the national level. The Governor must then eat elsewhere. Certainly a policy or guideline can and should be adopted for the Governor, senior staff and commissioners to provide them the flexibility to do the people's business during scheduled conference meal times--and to be reimbursed for the modest food costs involved for eating elsewhere.

Third, the regulations regarding travel and meals are extensive. It is unreasonable to expect employees to know those rules entirely on their own, and instead help is needed from accounting and administrative staff who routinely face these issues. We are glad your report recognizes that experienced administrative accounting staff provided to the Governor's Office must more thoroughly review employee expense reports to locate ineligible expenses in advance.

Audit Finding Number 2:

This finding indicates that the Office of the Governor "did not always sufficiently plan or document out of state travel." We agree that -- as a general rule -- travel planning should be done to save as much money as possible. We simply amplify what your report states: "[t]he nature of the Governor's duties and responsibilities does not always allow for sufficient advance planning." As one of many examples, no advance planning could have been done to schedule the Governor's unexpected early return from Washington after massive tornadoes ripped through southern Minnesota in March 1998.

In addition, even for conferences that are known well in advance, such as National Governor's Association meetings, neither the Governor nor his staff may know who will be able to attend. Unforeseen circumstances may force the press secretary to remain behind, while the deputy chief of staff must then attend. If a ticket is purchased two weeks in advance for the press secretary, that money is lost. This is a bigger concern when staff if kept lean, as it was during Governor Carlson's administration. Some additional monies may be expended under these circumstances, yet the savings in salaries and benefits greatly outweighs the additional costs of late bookings.

Audit Finding Number 3:

This finding concerns Residence documents maintained prior to Governor Carlson's end of term, but not retained thereafter. The audit reflects operations of the Office of the Governor from January 1, 1997 to December 31, 1998. The Carlson Administration left office on January 4, 1999, and no longer exercised any day-to-day control over government operations. Nor did Governor Carlson have any state resources or state employees available to him for any government issues arising after that time.

An initial meeting with the Governor's chief of staff and your office regarding this audit had not occurred prior to the end of term. Typically an opening meeting is conducted to inform the audited party of the scope of the audit, as well as to determine what documents will be needed, where they are kept, and how they can most readily be made available to the auditor. This is of vital importance when one administration is leaving and another is about to take office. Your office had difficulty reaching former staff members when routine questions arose in 1999; most, if not all, former staff had moved on to the private sector. I then engaged as the Governor's contact person to answer your questions or to locate staff who could assist.

In the future, Governor Carlson suggests that an opening audit meeting be conducted by your staff and the Governor, the Governor's Chief of Staff, and necessary administrative staff, in June or July of a gubernatorial election year. At that point, the legislative session is closed, and the administration is just about to begin its transition process (or possibly its reelection campaign). This is an ideal time when participants should be advised of information needed by your office, and all parties can plan for and anticipate transition issues.

An opening meeting could have prevented the need for finding number 3 in your report. That finding states the "Office of the Governor did not retain a control log" or certain supporting documentation for events held at the Governor's Residence. However, the Carlson Administration did maintain a control log, and did maintain supporting documentation for all Residence functions. The documents were left at the Residence by the departing staff.

However, the control log and the supporting documentation were removed from the

Residence after January 4. Current staff did not realize the nature of those documents, believing they were "personal" files kept for the former Governor because they contained thank-you notes, invitations and the like with each event. The staff requested their removal, and the documents were disposed of.

This transition miscue could have been prevented. At an opening conference held well in advance of the administration changeover, all parties could and should have discussed a "holding area" for all such documents. The Carlson Administration sent substantial numbers of documents to the Department of Administration, the Minnesota Historical Society and elsewhere during the transition period, depending upon the nature of the documents. The former Residence staff felt it appropriate to leave the Residence-related documents at the Residence. As we suggested at the exit conference held on July 9, it would be better to routinely send them to the administrative accounting staff at the Department of Administration for review and storage. We all may have come to that conclusion last June if we had planned for such transition contingencies together. We are glad to see your report makes the procedural recommendation that, in the future, such documents be sent to the administrative staff on an on-going basis for review and storage.

We note, however, your report recognizes reimbursement was made to the State by persons or entities using the Residence for non-public purposes. The administration greatly limited the use of the Residence by non-public entities, more so than earlier administrations. We recognized the Residence is a public trust that should be respected, and when a non-public entity used the Residence, it had to make prompt payment for that use. Nothing in your report suggests otherwise.

In closing, we thank you and your staff for your professional performance during this audit process. If you should have any further questions or concerns, please feel free to contact me at your convenience

Very truly yours,

Robert J. Borhart

cc: Governor Arne H. Carlson

STATE OF MINNESOTA

OFFICE OF GOVERNOR JESSE VENTURA

130 State Capitol • 75 Constitution Avenue • Saint Paul, MN 55155

July 16, 1999

James R. Nobles
Legislative Auditor
Office of the Legislative Auditor
First Floor Centennial Building
St. Paul, Minnesota 55155

Dear Mr. Nobles:

We appreciate the opportunity to respond to the findings of the audit of the Governor's Office for the period January 1, 1997 through December 31, 1998, recognizing that the only section of the report directly applicable to the work of the Ventura Office is included in chapter 4, "Governor-Elect Transition Funding."

We understand the responsibility of the Governor's Office to establish and maintain procedures that ensure internal control of fiscal activities. We have been attentive to creating such a control environment in the establishment of the Ventura-Schunk Administration.

In regard to the report's findings for the two years prior to Governor Ventura's inauguration, the following responses are provided:

Finding

1. The Governor's Office inappropriately paid certain employees for meals they were not eligible for.

   Recommendation: The Office of the Governor should recover ineligible meal reimbursements paid for former employees. The Office of the Governor should follow applicable state travel policies and its own compensation plan when reimbursing employees for meals. Administrative staff should more thoroughly review employee expense reports and compare them to travel itineraries and conference agendas to ensure staff eligibility for meal reimbursements.

   Response:

   - The State of Minnesota Travel Policy is very clear regarding eligible meal reimbursements. Employees are provided a copy of the policy when they are hired.
   - Employee expense reports are reviewed and approved by the employee's supervisor or the Director of Operations.

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- The Governor's Office administrative services staff has been assigned the responsibility for a thorough review of expense reports before they are paid so that they are in compliance with established procedures.

Finding

2. The office staff did not complete the out-of-state travel authorization form in a timely manner and did not document all circumstances surrounding their trip.

Recommendation: The Office of the Governor should complete the out-of-state travel authorization form at least ten days prior to the trip. Office staff should plan trips sufficiently in advance to take advantage of the reduced airfares. The Office of the Governor should document events, 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. The office should document an analysis of expenses to ensure no additional costs are incurred as result of personal travel.

Response:

- Employees are required to obtain approval in advance for all out-of-state travel on the out-of-state travel authorization form. The form will be required at least ten days prior to a trip unless a written statement is included explaining the delay.

- Out-of-state travel authorizations must include justification for any costs that may seem unreasonable or unnecessary.

Finding

3. The office staff did not retain documentation to ensure that all non-state events were properly billed out.

Recommendation: The Office of the Governor should maintain an events log identifying both state and non-state events held at the residence.

Response:

- The Governor's Residence Manager is responsible for maintaining an events log to document all events that are considered significant to the operations of the residence.

Sincerely,

Steven Bosacker

Steven Bosacker
Chief of Staff