

Financial-Related Audit

Governor's Residence Council
January 1, 1999, through December 31, 2002



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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If you have comments about our work, or you want to suggest an audit, investigation, evaluation, or best practices review, please contact us at 651-296-4708 or by e-mail at auditor@state.mn.us



Representative Tim Wilkin, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. Robert Booker, Chair
Governor's Residence Council

Members of the Governor's Residence Council

Mr. Brian Lamb, Commissioner
Department of Administration

We have audited the Governor's Residence Council for the period January 1, 1999, through December 31, 2002. Our audit scope included gift revenues, expenditures, and asset inventory. The audit objectives and conclusions are highlighted 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 require that we design the audit to provide reasonable assurance that the Department of Administration and the Governor's Residence Council complied with provisions of laws, regulations, and contracts that are significant to the audit. Management of the Department of Administration and the Governor's Residence Council is responsible for establishing and maintaining the internal control structure and complying with applicable laws, regulations, and contracts.

This report is intended for the information of the Legislative Audit Commission and management of the Department of Administration and the Governor's Residence Council. This restriction is not intended to limit the distribution of this report, which was released as a public document on July 24, 2003.

/s/ James R. Nobles

James R. Nobles
Legislative Auditor

/s/ Claudia J. Gudvangen

Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

End of Fieldwork: March 31, 2003

Report Signed On: July 21, 2003

Governor's Residence Council

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Audit Participation

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

Claudia Gudvangen, CPA	Deputy Legislative Auditor
Brad White, CPA, CISA	Audit Manager
Michael Hassing, CPA	Auditor-in-Charge
Doreen Bragstad, CPA	Auditor

Exit Conference

We discussed the results of the audit with the following staff of the Governor's Residence Council, the Department of Administration, and the Governor's Office at exit conferences on June 23, 2003, and July 10, 2003:

Governor's Residence Council:

Robert Booker	Chair
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Department of Administration:

Brian Lamb	Commissioner
Kath Ouska	Assistant Commissioner
Judy Hunt	Internal Audit
Larry Freund	Financial Management and Reporting
Kent Allin	Materials Management Division
Lenora Madigan	Plant Management Director

Governor's Office:

Paula Brown	Director of Operations
Tom Oehler	Residence Manager
John Pemble	Administrative Services Manager

Governor's Residence Council

Report Summary

Key Findings

- The residence manager did not maintain a complete log of incoming gift receipts collected at the residence for the Governor's Residence Council. A log allows the Department of Administration's Financial Management and Reporting Division to verify that all gifts were promptly deposited and accurately recorded in the state's accounting system. In addition, the residence manager did not promptly forward donations, accumulating to \$250 or more, to minimize the risk of loss or theft by holding the receipts. We recommended that the residence manager maintain a receipt log and forward receipts, accumulating to \$250 or more, to the Financial Management and Reporting Division for deposit. (Finding 1, page 6)
- The Department of Administration did not follow state purchasing policies for the procurement of services in excess of \$2,500 on behalf of the Governor's Residence Council. In one case, the department awarded a \$4,425 project to a council member without evidence of competitively bidding the work, as required by the council's procedures. We recommended that the department follow the prescribed state competitive procurement process and the state's organizational conflicts of interest policy when obtaining goods or services on behalf of the council. (Finding 2, page 11)
- The Department of Administration's Plant Management Division did not maintain a complete inventory record of state assets located at the Governor's residence. Donated and purchased assets were not updated in the inventory records. Without an accurate record, periodic physical verification is ineffective and missing assets may go undetected. In fact, the department could not locate seven assets valued at \$16,599, and the inventory records required adjustment. We recommended that the Plant Management Division improve internal control by maintaining complete and accurate inventory records and by tracking the movement and trade-in of assets. (Finding 3, page 11)

Background

The Governor's Residence Council was created in 1980 to develop and implement an overall restoration plan for the Governor's residence and surrounding grounds and to accept contributions. The council operates under the provisions of Minn. Stat. Section 16B.27 and consists of 19 members. The Department of Administration provides administrative support for the council while the Governor's Office provides for the staffing and resources for operating the residence.

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 Governor's Residence Council included gift revenues, expenditures, and assets from 1999 to 2002. The council's response is included in the report.

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Governor's Residence Council

Chapter 1. Introduction

The Governor's Residence Council was created in 1980 to develop and implement an overall restoration plan for the Governor's residence and surrounding grounds. The Governor's residence is located at 1006 Summit Avenue in St. Paul and serves as the living quarters for the Governor. The primary function of the council is to approve alterations and additions to the existing structure and grounds with respect to its importance as a public facility and historic residence. The council operates under the authority of Minn. Stat. Section 16B.27.

The council consists of 19 members including 4 members designated by law, 2 legislative members, and 13 members chosen by the Governor from various specialized fields, including higher education, interior design, and architecture. Current members include the director of the Minnesota Historical Society, the executive director of the Minnesota State Arts Board, as well as the first family and the residence donor family. Members of the council serve without compensation. Dr. Sam Grabarski, chair of the council since May 1989, retired in 2002. In September 2002, the council elected Mr. Robert Booker, executive director of the Minnesota State Arts Board, as its chair.

The Governor's Residence Council does not oversee the daily operations of the residence. The Governor's residence is managed and operated by staff from the Governor's Office. The Governor's Office's budget provides funding for the residence manager and other staff positions, except for the general maintenance function, which is the responsibility of the Department of Administration. The Department of Administration's Financial Management and Reporting Division provides the administrative support for managing and recording the council's financial activities.

Activities of the council are entirely funded through private donations from individuals, foundations, and organizations. The council holds fund raising events and accepts contributions to provide funding for the residence. Table 1-1 is a summary of the council's financial activity for fiscal years 2000-2002:

Governor's Residence Council

Table 1-1
Summary of Financial Activity
Fiscal Years 2000-2002

	<u>2000</u>	<u>2001</u>	<u>2002</u>
Beginning Balance	\$ 7,838	\$25,834	\$12,504
Revenues:			
Gift Receipts	\$55,358	\$28,494	\$11,450
Interest Earned	<u>965</u>	<u>1,701</u>	<u>523</u>
Total Revenue	<u>\$56,323</u>	<u>\$30,195</u>	<u>\$11,973</u>
Expenditures:			
Supplies and Equipment	\$32,549	\$16,344	\$ 0
Repair and Replacement	832	24,115	4,556
Other Expenditures	<u>4,946</u>	<u>3,066</u>	<u>7,998</u>
Total Expenditures	<u>\$38,327</u>	<u>\$43,525</u>	<u>\$12,554</u>
Ending Balance	<u>\$25,834</u>	<u>\$12,504</u>	<u>\$11,923</u>

Note: Fluctuations in revenue and expenditures are due to the timing of various fundraising events and remodeling and refurbishing projects approved by the council.

Source: Minnesota Accounting and Procurement System (MAPS) as of March 2003.

Governor Jesse Ventura and his family lived part-time at the residence during the past gubernatorial term that ended January 6, 2003. In April 2002, the Governor's Office closed the residence as an administrative budget decision. Although the residence reopened in August 2002 for public events, the Ventura family did not reside there for the remainder of the Governor's term. At the time of closing, the Governor dismissed the residence staff. The office hired new staff beginning in July 2002.

Chapter 2. Gift Revenues

Chapter Conclusions

The Department of Administration's Financial Management and Reporting Division's internal controls provided reasonable assurance that Governor's Residence Council gifts were accurately reported in the accounting records and accepted in compliance with Minn. Stat. Section 16B.27, Subd. 5(c). However, the residence manager did not maintain a complete log of receipts at the residence to control the timeliness and accuracy of state treasury deposits. In addition, the residence manager did not forward donations, accumulating to \$250 or more, to the Financial Management and Reporting Division for deposit to minimize the risk of loss or theft by holding the receipts.

The Governor's Residence Council accepts gifts and donations for the residence on behalf of the State of Minnesota. The council formally accepts cash and noncash gifts from individuals, foundations, and organizations at its board meetings. The Department of Administration's Financial Management and Reporting Division deposits cash donations into the state treasury and submits a list of gifts to the council for approval. Upon acceptance, the council submits a gift acceptance letter and certificate to the donor. If the council does not accept the gift, the donation is returned to the donor. The council records the official gift acceptance in its meeting minutes.

Donated revenues consisted of either designated or undesignated gifts. The council can use undesignated gifts for any residence purpose or project, while designated gifts must be spent as stipulated by the donor. As shown in Table 1-1, gift receipts totaled \$95,302 for fiscal years 2000 through 2002. The council also earns interest on its unexpended balances in the state treasury. The Department of Finance calculates the interest earned on these funds and transfers the amount to the council gift fund account. The gift fund earned \$3,189 in investment income during the three-year period ending June 30, 2002.

The majority of monetary donations received by the council are undesignated gifts. The council uses those moneys for the improvement of the interior, exterior, or landscape of the residence. A proposed plan and projected costs must be consistent with the funds available and approved by the council prior to the beginning of the project. The council also accepted donations where the donor designates a specific purpose for the donation. During this audit period, for example, the council accepted \$10,450 in designated donations for the restoration of the Steinway grand piano. The total cost of the restoration was \$18,500.

Governor's Residence Council

Audit Objectives and Methodology

The primary objectives of our review of gift receipts were as follows:

- Did the Department of Administration's Financial Management and Reporting Division's internal controls provide reasonable assurance that council gift collections were safeguarded, properly designated, and accurately reported in the accounting records?
- Did the Financial Management and Reporting Division comply with material finance-related legal provisions and management's authorizations?

To meet these objectives, we interviewed the residence manager and staff from the Department of Administration's Financial Management and Reporting Division to gain an understanding of the controls over the council's receipt process. We reviewed deposits and accounting records to determine if staff properly deposited and accounted for amounts collected. We reviewed Governor's Residence Council meeting minutes and records to determine if gifts were formally accepted, as required by statute, and properly identified for designated or undesignated purposes.

Conclusion

The Department of Administration's Financial Management and Reporting Division's internal controls provided reasonable assurance that Governor's Residence Council gifts were accurately reported in the accounting records and accepted in compliance with Minn. Stat. Section 16B.27, Subd. 5(c). However, the residence manager did not maintain a complete log of council gift receipts to control the timeliness and accuracy of state treasury deposits. In addition, the residence manager did not forward donations, accumulating to \$250 or more, to the Financial Management and Reporting Division for deposit to minimize the risk of loss or theft by holding the receipts.

- 1. PRIOR FINDING PARTIALLY RESOLVED: The residence manager did not maintain a complete log of all receipts collected at the residence nor promptly forward cash and checks totaling \$250 or more to the Department of Administration's Financial Management and Reporting Division for deposit.**

Residence staff did not record all council gifts and collections on a receipt log and did not compare collections with the amounts deposited into the state treasury. The council's gift acceptance procedure requires a receipt log of incoming gifts collected at the Governor's residence prior to forwarding to the Department of Administration's Financial Management and Reporting Division for deposit. The only log that could be located included gifts from January 2000 through January 2001 and did not include all designated gifts received for that time period. The log documented the date the gift was received, amount donated, the donor's name, and where the deposit was submitted. Without a log, division staff have no assurance that all gifts were deposited or that they were deposited in a timely manner. Also, a complete receipts log would help the council ensure that any designated donations would be properly recorded and expended.

Governor's Residence Council

The residence manager did not promptly forward receipts totaling \$250 or more to the Financial Management and Reporting Division for deposit into the state treasury. Using the calendar year 2000 receipts log, we traced the donation receipt to the deposit date as recorded in the state's accounting system. For 19 of 30 checks, the time lag between the date collected and date deposited exceeded one day. Generally, the residence manager held checks for at least a week before the deposit was made. However, we noted one \$5,000 gift was held for over one month before it was deposited. Calendar year 2001 and 2002 could not be tested since no complete log was available identifying the date the checks were actually received at the residence.

Recommendations

- *The residence manager should maintain a complete log of all council gift receipts collected at the residence.*
- *The residence manager should forward all council gift receipts accumulating to \$250 or more to the Department of Administration's Financial Management and Reporting Division for deposit by the next business day.*
- *The Financial Management and Reporting Division should periodically compare the receipts log to actual deposits to ensure all funds were deposited.*

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Chapter 3. Expenditures and Assets Inventory

Chapter Conclusions

The Department of Administration's internal controls provided reasonable assurance that Governor's Residence Council expenditures were properly recorded in the state's accounting system and that designated donations were expended according to the donor's restrictions. For the items tested, except for the following procurement concern, the department complied with applicable finance-related legal provisions and management's authorization. We noted that the department did not maintain sufficient documentation to support competitive bidding for \$4,425 in services procured from a council member's business for a residence restoration project. In addition, the same firm also received payment for two other projects totaling \$3,938.

We recommended stronger inventory control and record keeping of residence assets by the Department of Administration's Plant Management Division. The division did not maintain a complete inventory record of assets donated and purchased. Large donations, such as exercise equipment, a pool table, and an air bed were not updated on the asset records. Without an accurate inventory record the periodic physical verification is ineffective and missing assets may go undetected. The division performed and documented physical inventories taken in April 2002 and January 2003. However, the division could not locate seven assets valued at \$16,599 in its January 2003 physical inventory and, as a result, the items were removed from inventory.

The Governor's Residence Council expenditures totaled \$94,407 for fiscal years 2000 through 2002. The council adopts an annual spending plan at the beginning of each fiscal year based on funds available. The council spends funds to maintain and improve the quality of furnishings of the residence and to implement an overall restoration plan for the building. The council does not incur any payroll costs for its operations. Employees from certain divisions within the Department of Administration and the Governor's Office provide personnel and administrative support for the council's operations. The majority of council expenditures are for building and remodeling activities.

During the audit period, fifty-five percent of the council's expenditures were spent on supplies and equipment, including new china, draperies, and a Persian rug. Another large area of spending, twenty-seven percent of council expenditures, were for repairs and restoration.

All restoration, rehabilitation, furnishing, decorating, and structural alterations must be made in accordance with a proposed project plan or by approval of the council. The proposed project plan and expenditures must be consistent with the funds available. The department is required to

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follow the state's purchasing and bidding procedures, as prescribed in Minnesota Statute Section 16C, when obtaining services for the council.

The Department of Administration's Plant Management Division records the assets of the residence on the state's fixed asset inventory system. To monitor the assets, the division prepares a digital asset record consisting of the asset's photograph, the asset number, and the asset's current location. The asset list includes donated antiques and sensitive items.

Audit Objectives and Methodology

The primary objectives of our review of expenditures and assets were to answer the following questions:

- Did the Department of Administration's internal controls provide reasonable assurance that council assets were adequately safeguarded, and council expenditures were properly recorded in the state's accounting system and in accordance with management's authorization?
- Did the department comply with material finance-related legal provisions and management's authorization?

To meet these objectives, we interviewed the residence manager and employees of the Department of Administration to gain an understanding of the controls over the council's expenditures and residence assets. We analyzed and performed testing of expenditure transactions to determine if staff properly authorized, processed, and recorded Governor's Residence Council expenditures. We also tested council expenditures for compliance with applicable procurement requirements and management's authorization. We reviewed the physical inventories that were performed by the Plant Management Division in April 2002 and January 2003. We also reviewed loan agreements for artwork from the Minnesota Historical Society, the Walker Art Center, and the Minneapolis Institute of Arts.

Conclusions

The Department of Administration's internal controls provided reasonable assurance that Governor's Residence Council expenditures were properly recorded in the state's accounting system, and that designated donations were expended according to the donor's restrictions. For the items tested, except for the following procurement concern, the department complied with applicable finance-related legal provisions and management's authorization. We noted that the department did not maintain sufficient documentation to support competitive bidding for \$4,425 in services procured from a council member's business for a restoration project at the residence. In addition, the same firm also received payment for two projects totaling \$3,938.

We recommended stronger inventory control and record keeping of residence assets managed by the Department of Administration's Plant Management Division. The division did not maintain a complete inventory record of assets donated and purchased. Large donations, such as exercise equipment, a pool table, and an air bed were not updated on the assets record. Without an

Governor's Residence Council

accurate inventory record the periodic physical verification is ineffective and missing assets may go undetected. The division performed and documented physical inventories taken in April 2002 and January 2003. However, the division could not locate seven assets valued at \$16,599 in its January 2003 physical inventory and, as a result, the items were removed from inventory.

2. The Department of Administration did not solicit competitive bids for restoration projects and allowed a council member to perform restorative work at the residence.

The department did not follow proper bidding procedures for council purchases of services exceeding \$2,500. The department could not find documentation to provide evidence that it solicited bids for 6 of 8 projects tested. In one instance, work costing \$4,425 was directed to an interior design firm of one of the council's members. The project involved applying a specialty restorative wall finish to the billiards room.

State purchasing policies issued by the Department of Administration require that all purchases exceeding \$2,500 must be based on competitive bids. In addition, ADMIN Policy 01-13 requires all state procurement transactions to avoid or mitigate organizational conflicts of interest. The council's operating procedures stated that it is the council's first preference not to purchase any goods or services from any member of the council. However, the council amended the procedure to allow such services provided the project is supported with documented bids. No bids were available for the \$4,425 specialty wall finish completed by a council member's firm. Council minutes did not discuss whether the board member refrained from voting on the work. In addition to the specialty wall finish, the member's firm also received payment for two other projects totaling \$3,938.

Recommendations

- *The Department of Administration should follow state procurement procedures by obtaining competitive bids for all Governor's Residence Council services exceeding \$2,500.*
- *The Department of Administration should work with the council to ensure that council operating procedures are consistent with the provisions of the statewide policy on organizational conflicts of interest.*

3. The Department of Administration's Plant Management Division did not maintain a complete inventory record and, as a result, its physical inventory verification is ineffective.

The Department of Administration's Plant Management Division did not update state inventory records for noncash assets donated to the residence. We noted council approval for acceptance of donated assets but could not find that these items were recorded in the inventory records. In fact, the last update on the record was dated June 1999. Unrecorded items included exercise equipment, a pool table, and an air bed and frame from corporate donors. Not maintaining a

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complete and accurate record of items purchased and donated results in an ineffective periodic physical inventory verification and could cause missing residence assets to go undetected.

The division could not locate seven assets, valued at \$16,599, that were missing after it completed a physical inventory in January 2003. A previous physical inventory was taken by the department when the residence closed in April 2002. The largest item, a \$13,500 oriental rug, possibly was exchanged or replaced with a similar rug as called for in a letter of agreement with the vendor. Since the seven items could not be located at the residence, the department removed them from the fixed asset inventory record. We feel that the division needs to improve the effectiveness of its physical inventory by preparing accurate inventory records.

Recommendations

- *The Department of Administration's Plant Management Division should improve internal controls over safeguarding residence assets by:*
 - *updating the inventory record for unrecorded items;*
 - *maintaining a complete and accurate inventory record of all assets purchased and donated; and*
 - *tracking the movement of assets and updating the inventory record when assets are relocated or traded-in.*

- *The residence manager should communicate any additions or deletions of inventory items to the Plant Management Division in a timely manner.*

**Status of Prior Audit Issues
As of March 2003**

Most Recent Audit

Legislative Audit Report 99-35, issued in July 1999, covered the four calendar years ending December 31, 1998. The audit included a review of gift revenues, expenditures, and fixed assets. The report cited one audit finding related to the maintenance of a receipt log at the residence. This finding is repeated in the current audit report.

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.

Governor's Residence Council

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July 18, 2003

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

Dear Mr. Nobles:

Re: Audit of the Governor's Residence Council

The Department of Administration (Admin) extends its appreciation to you and your staff for the opportunities to discuss the audit results pertaining to the Governor's Residence Council (GRC).

As mentioned in our most recent meeting, we believe that certain Admin divisions can improve their oversight of the council's revenues, purchases and assets. In our view, the audit issues contained within this report are attributable to attrition within Admin through budget reduction measures and unclear roles and responsibilities. Hence a significant need exists for clarification of the roles and responsibilities of the GRC, the residence manager, and certain Admin divisions to ensure that the audit issues do not repeat themselves in future years. We intend to work with the parties involved and make documentation of these roles and responsibilities a priority task.

We concur with the three findings contained in the audit report and as indicated below, we have already initiated plans to implement your suggested recommendations to resolve the audit issues.

Finding 1: PRIOR FINDING PARTIALLY RESOLVED: The residence manager did not maintain a complete receipts log of all receipts collected at the residence nor promptly forward cash and checks totaling \$250 or more to the Department of Administration's Financial Management and Reporting Division for deposit.

Recommendation:

The Financial Management and Reporting Division should periodically compare the receipts log to actual deposits to ensure all funds were deposited.

Beginning in fiscal year 2004 Admin's Financial Management and Reporting (FMR) Division staff will perform periodic cash receipts reconciliations to ensure all Governor's Residence Council funds are deposited. Specifically after the end of each month, FMR staff will perform the following tasks:

1. Send a written request to the residence manager for the cash gift receipts log relating to the previous month.
2. Generate a MAPS cash receipts report.
3. Compare the amounts received per the cash gift receipts log to the amounts reported as cash receipts in MAPS, and investigate and resolve any discrepancies.
4. Communicate results of the reconciliation process to the residence manager.

This process is designed to ensure that all amounts actually received were deposited into the correct account and reporting period at the correct amount on a timely basis.

We have recently reviewed existing procedures for accepting cash gift receipts and identified ways to enhance them and to modify the log to include the date the cash receipts are sent to FMR for deposit. We plan to share our comments with the residence manager and work toward getting the procedures finalized soon.

Persons responsible:

Larry Freund, Financial Management Director

Gary Johnson, Intermediate Accounting Officer, FMR

Targeted implementation date: August 8, 2003

Finding 2. The Department of Administration did not solicit competitive bids for restoration projects and allowed a council member to perform restorative work at the residence.

Recommendation:

The Department of Administration should follow state procurement procedures by obtaining competitive bids for all Governor's Residence Council services exceeding \$2,500.

We agree that *all* goods and services that the state purchases for the Governor's residence need to be obtained in the manner prescribed by procurement law M.S. §16C. and as previously mentioned, certain Admin division staff intends to work with the GRC and the residence manager to clarify purchasing responsibilities and to develop purchasing procedures. Discussions in the near future between Admin division staff and the residence manager will be used to clearly define purchasing responsibilities and procedures, which in turn will be communicated to the GRC so they will know where to direct their requests. This will ensure that,

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depending upon the nature of the services requested, the proper personnel will process the necessary orders or contracts pertaining to the residence in a manner consistent with State purchasing requirements.

Person responsible: Kath Ouska, Assistant Commissioner, Facilities Management Bureau
Targeted implementation date: January 31, 2004

Recommendation:

The Department of Administration should work with the council to ensure that council operating procedures are consistent with the provisions of the statewide policy on organizational conflicts of interest.

Admin welcomes the opportunity to further educate council members on organizational conflicts of interest and address any questions or concerns they might have. We will work with the council to ensure that the council's operating procedures are consistent with the statewide policy on organizational conflicts of interest *and* M.S. § 16C.04, subd. 3, which addresses this topic. Particular attention will focus on modifying procedures that currently permit a council member to provide services even if there is documentation for competitive bidding since there are serious conflict of interest considerations. We also intend to review processes for mitigating or handling an organizational conflict of interest if one should occur, including assessing the council's voting procedures on project work that a member might benefit from.

Person responsible: Kath Ouska, Assistant Commissioner, Facilities Management Bureau
Targeted implementation date: January 31, 2004

Finding 3. The Department of Administration's Plant Management Division did not maintain a complete inventory record and, as a result, its physical inventory verification is ineffective.

Recommendation:

The Department of Administration's Plant Management Division should improve internal controls over safeguarding council assets by:

- ***updating the inventory record for unrecorded items;***
- ***maintaining a complete and accurate inventory record of all assets purchased and donated; and***
- ***tracking the movement of assets and updating the inventory record when assets are relocated or traded-in.***

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To strengthen internal controls designed to safeguard council assets, Admin's Plant Management personnel intends to work with the residence manager to enhance procedures for non-cash gift acceptance and capital asset inventory management. We hope to model procedures for the latter after Admin's fixed asset policy and possibly design a form that easily captures capital asset activities for reporting purposes.

Admin also intends to work with the residence manager to enhance existing procedures for the receipt of *all* non-cash gifts. This will involve developing a log for recording the receipt of all non-cash gifts. At a minimum, this log should specify the date the gift was received, a description of the property received, the fair market value of the property received, and the donor's name and address.

Persons responsible:

Kath Ouska, Assistant Commissioner, Facilities Management Bureau
Lenora Madigan, Plant Management Division Director

Targeted implementation date: January 31, 2004

Again, we appreciate the opportunities you provided us to discuss the report and to respond accordingly.

Sincerely,

/s/ Kath Ouska for

Brian J. Lamb
Commissioner

Cc: Bob Booker, Chair, Governor's Residence Council
Claudia Gudvangen, CPA, Deputy Legislative Auditor
Kath Ouska, Assistant Commissioner, Admin
Larry Freund, Financial Management Director, Admin
Lenora Madigan, Plant Management Division Director, Admin
Deborah Tomczyk, Human Resources Director, Admin
Judy Hunt, CIA, CPA, Internal Auditor, Admin
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