Office of the Governor and Lieutenant Governor

Performance Audit

August 2022

Financial Audit Division

OFFICE OF THE LEGISLATIVE AUDITOR

STATE OF MINNESOTA

Financial Audit Division

The division has authority to audit organizations and programs in the state's executive and judicial branches, metropolitan agencies, several "semi-state" organizations, state-funded higher education institutions, and state-funded programs operated by private organizations.

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OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA • Judy Randall, Legislative Auditor

August 11, 2022

Members
Legislative Audit Commission

The Honorable Tim Walz, Governor
The Office of the Governor and Lieutenant Governor

This report presents the results of our performance audit of the Office of the Governor and Lieutenant Governor for the period July 2019 through December 2021. The objectives of this audit were to determine if the office had adequate internal controls over selected financial activities and complied with significant finance-related legal requirements.

This audit was conducted by Scott Tjomsland, CPA (Audit Director); Zach Yzermans, CPA (Audit Director); and auditors Nicholai Broekemeier and Daniel Hade.

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

Sincerely,

Lori Leysen, CPA
Deputy Legislative Auditor

Scott Tjomsland, CPA
Audit Director

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Introduction

The Office of the Governor and Lieutenant Governor is responsible for the general direction, administration, and supervision of the affairs of the executive branch of Minnesota state government, as well as the development of legislative proposals. The office is also in charge of appointing state department heads; members of state boards and commissions; and judges to the state's ten judicial districts, the Court of Appeals, and the Supreme Court when vacancies occur.

We initially planned to begin conducting this audit in March 2020, but delayed the audit due to the COVID-19 pandemic. We conducted this audit to determine whether the office had adequate internal controls to ensure it safeguarded resources, complied with significant finance-related legal requirements, and resolved prior audit findings.[1] We audited receipts, payroll expenditures, and nonpayroll expenditures. The period under examination went from July 1, 2019, through December 31, 2021.

Internal controls are the policies and procedures management establishes to govern how an organization conducts its work and fulfills its responsibilities. A well-managed organization has strong controls across all of its internal operations. If effectively designed and implemented, controls help ensure, for example, that inventory is secured, computer systems are protected, laws and rules are complied with, and authorized personnel properly document and process financial transactions.

Minnesota Law Mandates Internal Controls in State Agencies

State agencies must have internal controls that:

- Safeguard public funds and assets and minimize incidences of fraud, waste, and abuse.
- Ensure that agencies administer programs in compliance with applicable laws and rules.

The law also requires the commissioner of the Department of Management and Budget to review OLA audit reports and help agencies correct internal control problems noted in those reports.

— *Minnesota Statutes* 2021, 16A.057

Auditors focus on internal controls as a key indicator of whether an organization is well managed. In this audit, we focused on whether the office had controls to ensure that it safeguarded state resources, appropriately spent state funds, and accurately paid its vendors and employees in compliance with state laws and policies.

[1] Office of the Legislative Auditor, Financial Audit Division, *Office of the Governor and Lieutenant Governor: Internal Control and Compliance Audit* (St. Paul, 2015).

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Report Summary

Conclusion

The Office of the Governor and Lieutenant Governor generally complied with the significant finance-related legal requirements we tested and generally had adequate internal controls. However, we identified some instances of noncompliance and internal control weaknesses. The list of findings below and the full report provide more information about these concerns.

Findings

Finding 1. The Office of the Governor and Lieutenant Governor did not adequately document key components of its interagency agreements with state agencies. Specifically, the office did not document how it determined the total amount to collect each fiscal year from state agencies for services provided, how it determined the portion of that total amount to allocate to each agency, or how to resolve unspent money at the end of the fiscal year. (p. 9)

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Background

Office of the Governor and Lieutenant Governor Overview and History

Article V of the Minnesota State Constitution established the Office of the Governor and Lieutenant Governor as part of the executive branch of state government; the office operates under the authority provided in the Minnesota Constitution, *Minnesota Statutes*, Chapter 4, and various other state statutes. The Governor and Lieutenant Governor are elected jointly for a four-year term that begins the first Monday in January following the general election. The Governor and Lieutenant Governor share offices and support staff.

Governor Tim Walz and Lieutenant Governor Peggy Flanagan were elected in November 2018 and sworn into office in January 2019.

Major duties of the governor include:

- Appointing state department heads; members of state boards and commissions; and judges to the state's ten judicial districts, the Court of Appeals, and the Supreme Court when vacancies occur.

- Chairing the State Executive Council, the State Board of Investment, the Land Exchange Board, and the Board of Pardons.

- Serving as Commander-in-Chief of the Minnesota National Guard, and overseeing emergency responses.

- Issuing extradition papers, proclamations, and writs of special elections.

- Informing the Legislature of the state's general condition; reviewing, vetoing, or signing into law legislation and rules; calling special sessions of the Legislature when needed; and consulting with state legislators during annual legislative sessions.

- General direction, administration, and supervision of the affairs of the executive branch of Minnesota state government, as well as the development of legislative proposals.

- Performing all other duties as specified by the laws of the state.

The lieutenant governor's chief duty is to assist the governor in carrying out the functions of the executive branch and be prepared to act in the governor's place in the event of the governor's absence or disability. The lieutenant governor's official duties also include:

- Call to order the senate on convening day.

- Any powers, duties, responsibilities, and functions of the governor delegated to the lieutenant governor by the governor (except Constitutional duties).
- Chairing the Capitol Area Architectural Planning Board (CAAPB).
- Serving as a member of the State Capitol Preservation Commission.
- Serving as a member of the State Executive Council.

Audit Scope, Objectives, Methodology, and Criteria

We conducted this audit to determine whether the Office of the Governor and Lieutenant Governor had adequate internal controls to ensure it safeguarded resources, complied with significant finance-related legal requirements, and resolved prior audit findings.[2] We audited receipts, payroll and nonpayroll expenditures, and the Governor's use of state airplanes. The period under examination went from July 1, 2019, through December 31, 2021. Exhibit 1 shows the sources and uses of the office's funds during the scope of the audit.

Exhibit 1: Sources and Uses of the Office's Funds, July 1, 2019, through December 31, 2021

Sources	Amount
General Fund Appropriations	$10,866,000
Federal Grant Appropriations[a]	1,475,024
Carry Forward from Fiscal Year 2019	583,574
Receipts	7,779,717
Total	$20,704,315

Uses	Amount
Payroll Expenditures	$12,415,518
Nonpayroll Expenditures	3,430,815
Transfers Out	1,800
Canceled Appropriations[b]	40,751
Total	$15,888,884

[a] The federal grant appropriations included federal grants to the state under the Coronavirus Relief Fund and the American Rescue Plan Act.

[b] The office did not spend $40,686 from the Fiscal Year 2021 appropriation, which canceled back to the General Fund. The office did not spend $65 from the Fiscal Year 2020 and 2021 appropriations, which canceled back to the federal grants.

SOURCE: State of Minnesota's accounting system.

[2] Office of the Legislative Auditor, Financial Audit Division, *Office of the Governor and Lieutenant Governor: Internal Control and Compliance Audit* (St. Paul, 2015).

Receipts

This part of the audit focused on receipts the office collected from annual interagency agreements with state agencies and other receipts collected from various sources. We designed our work to address the following questions:

- Were the office's internal controls adequate to ensure it collected the appropriate amounts for various activities, and safeguarded and properly deposited receipts?

- Did the office collect the appropriate amounts for various activities, and safeguard and properly deposit receipts?

- Did the office resolve the prior audit finding?

To gain an understanding of the office's internal controls and compliance requirements over receipts, we interviewed office staff. We also tested all the receipts collected from annual interagency agreements with state agencies and reviewed all the receipts for a subgrant the office received from the Department of Management and Budget. Finally, we tested all the receipts collected from other sources.

Payroll Expenditures

This part of the audit focused on the accuracy of the compensation paid to employees. We designed our work to address the following questions:

- Were the office's internal controls adequate to ensure that it accurately compensated employees in compliance with applicable legal provisions?

- Did the office accurately compensate employees in compliance with applicable legal provisions?

To gain an understanding of the office's internal controls and compliance requirements over payroll expenditures, we interviewed office staff. We also analyzed holiday pay, leave balance adjustments, and conversions of leave to deferred compensation to determine compliance with the office's compensation plan. Additionally, we:

- Reviewed employee access rights to the state's payroll system.

- Tested the starting salaries for all employees hired during the scope of the audit, a random sample of pay rate changes, all retroactive pay rate adjustment payments, and the salaries of the Governor and Lieutenant Governor.

- Tested a random sample of employee timesheets.

- Tested all mobile device allowance payments.

- Tested all separation payments, including vacation payoffs and severance payments.

- Tested all paid parental leave and all paid COVID-19 leave.
- Tested all payroll expenditures paid by the office to employees of other state agencies under interagency agreements.

Nonpayroll Expenditures

This part of the audit focused on nonpayroll expenditures. We designed our work to address the following questions:

- Were the office's internal controls adequate to ensure it obtained and accurately paid for goods and services in compliance with applicable legal provisions?
- Did the office obtain and accurately pay for goods and services in compliance with applicable legal provisions?
- Did the department resolve the prior audit finding?

To gain an understanding of the office's internal controls and compliance requirements over nonpayroll expenditures, we interviewed office staff. We also reviewed employee access rights to the state's accounting system and tested all rent expenditures. Finally, we tested samples of expenditures for professional/technical services, purchases with state purchasing cards, employee expense reimbursements, and expenditures for other goods and services.

We conducted this performance audit in accordance with generally accepted government auditing standards.[3] 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 believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. When sampling was used, we used a sampling method that complies with generally accepted government auditing standards and that supports our findings and conclusions. That method does not, however, allow us to project the results we obtained to the populations from which the samples were selected.

We assessed internal controls against the most recent edition of the internal control standards, published by the U.S. Government Accountability Office.[4] To identify legal compliance criteria for the activity we reviewed, we examined state laws; state contracts; the office's internal policies, including its compensation plan; and any state policies and procedures established by the departments of Management and Budget and Administration that the office adopted.

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[3] Comptroller General of the United States, Government Accountability Office, *Government Auditing Standards* (Washington, DC, December 2011).

[4] Comptroller General of the United States, Government Accountability Office, *Standards for Internal Control in the Federal Government* (Washington, DC, September 2014). In September 2014, the State of Minnesota adopted these standards as its internal control framework for the executive branch.

Receipts

The office collected money each year from the 24 government agencies led by members of the Governor's cabinet for services provided. The office also collected additional miscellaneous receipts. Exhibit 2 shows the receipts by type.

Exhibit 2: Receipts, July 1, 2019, through December 31, 2021

Type	Amount
Interagency Receipts for Services Provided[a]	$7,135,750
Interagency Grant	600,000
Other Miscellaneous Receipts[b]	43,967
Totals	$7,779,717

[a] The office collected the total amount for each fiscal year at the beginning of each year.

[b] The office recorded these receipts as expenditure reductions in the State of Minnesota's accounting system, including $3,980 as reductions to payroll expenditures and $39,987 as reductions to nonpayroll expenditures.

SOURCE: State of Minnesota's accounting system.

Interagency Receipts for Services Provided

The office executed annual interagency agreements with the 24 state agencies led by members of the Governor's cabinet. Under the terms of the agreements, the office collected the total amount at the beginning of the fiscal year for services to be provided during that fiscal year. As stated in the interagency agreements, those services included the office providing "policy advisors, communications specialists, public engagement specialists, constituent services caseworkers, and legal staff" to those agencies as needed, and to "represent the funding and policy interests of the various state agencies in the nation's capital." Various iterations of this funding mechanism began with the administration of Governor Pawlenty (2003-2011) and continued through the administrations of Governor Dayton (2011-2019) and Governor Walz (2019-present).

During the scope of the audit, the office collected $1,682,000, $2,113,750, and $3,340,000 for fiscal years 2020, 2021, and 2022, respectively. We examined all 72 of those interagency agreements and the money collected under each agreement.

FINDING 1

The Office of the Governor and Lieutenant Governor did not adequately document key components of its interagency agreements with state agencies. Specifically, the office did not document how it determined the total amount to collect each fiscal year from state agencies for services provided, how it determined the portion of that total amount to allocate to each agency, or how to resolve unspent money at the end of the fiscal year.

The office did not retain any documentation to support the total amount to be collected from the 24 agencies each fiscal year, or the specific portion allocated to each agency. We surmised that the office determined the total amount based on budgeted expenditures, which was mostly for payroll.[5] However, we could not identify a consistent correlation between the number of office employees funded by the money collected from agencies and the actual amounts collected. The number of employees with at least a portion of payroll expenditures funded by that money fluctuated from year to year, ranging from 40 in Fiscal Year 2021 to 43 in Fiscal Year 2022. In addition, the percentage of an employee's payroll expenditures funded by that money sometimes changed from year to year. Without documentation of the office's methodology, we could not determine whether the total amount collected from agencies each year was reasonable.

For the specific portions allocated to each agency, the interagency agreements stated that "Contributions were based on a number of factors including size of agency, time spent on agency-related issues, federal dollars received, and previous contributions." However, the office could not provide any documentation of calculations using those factors to determine specific agency amounts. Instead, as shown in Exhibit 3, the office allocated about the same percentage of the total amount to a given agency each year, with slight variations likely due to rounding.

Furthermore, the office allocated the same amount to three groups of agencies each year, with five, seven, and two agencies in each group, respectively. Without documentation of the office's allocation methodology, we could not determine whether the amounts allocated to each agency each year was reasonable.

We also noted that the terms of the interagency agreements did not address unspent money at the end of the fiscal year. The term of each agreement was between July 1 and June 30, but the office retained unspent money at the end of each fiscal year to spend in the subsequent fiscal year rather than returning it to the agencies. The office retained and subsequently spent $64,401 from Fiscal Year 2020 and $242,014 from Fiscal Year 2021.[6]

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[5] Payroll expenditures accounted for 96.5 percent of the total expenditures from money collected from agencies during fiscal years 2020, 2021, and 2022.

[6] As of July 2022, the office had not yet spent $95,567 from money collected from state agencies in Fiscal Year 2022. The office retained and subsequently spent $89,481 from Fiscal Year 2018 and $583,414 from Fiscal Year 2019.

Exhibit 3: Interagency Receipts for Services Provided, by State Agency, for Fiscal Years 2020, 2021, and 2022

State Agency	2020	Percentage	2021	Percentage	2022	Percentage
Department of Human Services	$ 359,000	21.34%	$ 460,000	21.76%	$ 718,000	21.50%
Department of Transportation	133,000	7.91	166,250	7.87	266,000	7.96
Department of Employment and Economic Development	96,000	5.71	120,000	5.68	192,000	5.75
Department of Commerce	88,000	5.23	110,000	5.20	176,000	5.27
Department of Corrections	77,000	4.58	96,250	4.55	154,000	4.61
Department of Education	77,000	4.58	96,250	4.55	154,000	4.61
Department of Health	77,000	4.58	96,250	4.55	154,000	4.61
Metropolitan Council	77,000	4.58	96,250	4.55	154,000	4.61
Department of Natural Resources	77,000	4.58	96,250	4.55	154,000	4.61
Minnesota IT Services	64,000	3.80	80,000	3.78	128,000	3.83
Department of Agriculture	56,000	3.33	70,000	3.31	112,000	3.35
Department of Labor and Industry	56,000	3.33	70,000	3.31	112,000	3.35
Department of Management and Budget	56,000	3.33	70,000	3.31	112,000	3.35
Office of Higher Education	56,000	3.33	70,000	3.31	112,000	3.35
Pollution Control Agency	56,000	3.33	70,000	3.31	112,000	3.35
Department of Public Safety	56,000	3.33	70,000	3.31	112,000	3.35
Department of Revenue	56,000	3.33	70,000	3.31	112,000	3.35
Housing Finance Agency	44,000	2.62	55,000	2.60	88,000	2.63
Department of Administration	32,000	1.90	40,000	1.89	40,000	1.20
Department of Iron Range Resources and Rehabilitation	24,000	1.43	30,000	1.42	48,000	1.44
Department of Military Affairs	23,000	1.37	28,750	1.36	46,000	1.38
Department of Veterans Affairs	23,000	1.37	28,750	1.36	46,000	1.38
Department of Human Rights	12,000	0.71	15,000	0.71	24,000	0.72
Bureau of Meditation Services	7,000	0.42	8,750	0.41	14,000	0.42
Totals	$1,682,000		$2,113,750		$3,340,000	

NOTE: The office collected $2,096,300 and $2,036,300 for fiscal years 2018 and 2019, respectively.

SOURCE: State of Minnesota's accounting system.

RECOMMENDATIONS

- **The Office of the Governor and Lieutenant Governor should document how it determines the total amount to collect each fiscal year from state agencies for services provided and the portion of that total amount to allocate to each agency.**
- **The Office of the Governor and Lieutenant Governor should ensure the allocation factors stated in the interagency agreements for services provided to state agencies match the actual factors used.**
- **The Office of the Governor and Lieutenant Governor should document in the interagency agreements how to resolve unspent money at the end of the fiscal year.**

Other Receipts

During the scope of the audit, the office received a $600,000 subgrant from the Department of Management and Budget, through a grant the department received from the Bush Foundation. The purpose of the subgrant was to implement Minnesota Executive Order 19-24, which Governor Walz signed on April 4, 2019.[7] We reviewed the subgrant and found no significant issues.

During the scope of the audit, the office collected $43,967 from state agencies and other sources for various purposes, including $32,000 for the sale of a vehicle to the Department of Public Safety, $7,515 for events held at the Governor's residence, and $4,452 in reimbursements. We examined all of those receipts and found no significant issues.

[7] The intent of Minnesota Executive Order 19-24 was to improve relations between the State of Minnesota and the Minnesota Tribal Nations. In 2021, the Legislature and the Governor agreed to codify Executive Order 19-24 in *Minnesota Statutes* 2021, 10.65.

Payroll Expenditures

As of December 2021, the office employed 70 staff. During the scope of the audit, the office had $12,415,518 in payroll expenditures. Exhibit 4 shows the payroll expenditures by type.

Exhibit 4: Payroll Expenditures, July 1, 2019, through December 31, 2021

Type	Gross Pay	Employer Expenses[a]	Total
Hours Worked and Leave Taken	$9,239,557	$2,841,408	$12,080,965
Lump Sum Pay Rate Increases	76,000	16,428	92,428
Retroactive Pay Rate Adjustments	12,427	3,395	15,822
Mobile Device Allowances	6,762	471	7,233
Separation Pay	144,365	9,450	153,815
Leave Conversions to Deferred Compensation	45,753	8,444	54,197
Other[b]	334	10,724	11,058
Totals	$9,525,198	$2,890,320	$12,415,518

[a] Includes the employer shares of Federal Insurance Contributions Act, retirement, and insurance contributions.

[b] Includes $12,328 paid to the Department of Administration for workers' compensation, expenditure reductions of $3,980 for reimbursed payroll costs, and $2,710 for miscellaneous payroll costs. We did not audit these other payroll expenditures.

SOURCE: State of Minnesota's accounting system.

State Payroll System Access

The office utilizes the state's payroll system to process human resources and payroll transactions. The payroll system contains several different access profiles that allow assigned users to perform various functions. The office follows state policy, which defines incompatible payroll system access profiles, and states, "Incompatible access profiles are not permitted."[8] We reviewed employee access rights to the payroll system and found no issues.

Employee Pay Rates

The office has its own compensation plan that establishes salary ranges for its employees.[9] During the scope of the audit, the office hired or rehired 55 employees. We tested the starting salaries for all of those employees and found no issues.

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[8] Department of Management and Budget, Statewide Operating Policy HR045, *SEMA4 Security*, issued April 2007.

[9] Office of the Governor and Lieutenant Governor, *Office of Governor Tim Walz and Lt. Governor Peggy Flanagan, Compensation Plan*, 2019-2021.

The Constitution of the State of Minnesota states that the salaries of executive officers, including the Governor, Lieutenant Governor, Secretary of State, State Auditor, and Attorney General, "shall be prescribed by law."[10] The last salary increase authorized by the Legislature for those officers occurred on January 1, 2016.[11] On April 15, 2020, the Governor signed Executive Order 20-36 to order a 10 percent salary reduction between April 15, 2020, and December 31, 2020, for himself, his chief of staff, and his 24 cabinet members. On December 23, 2020, the Governor signed Executive Order 20-105 to order an extension of the 10 percent salary reduction for himself and his chief of staff through June 30, 2021.

We confirmed the accuracy of the salaries paid to the Governor and Lieutenant Governor, including the salary reduction for the Governor. We also confirmed the salary reduction for the chief of staff.

Pay Rate Increases

The office's compensation plan provided for employees to receive periodic pay rate increases, including both general and performance-based increases. For performance-based increases, employees may choose to receive the increase as an adjustment to the base salary, as a lump-sum payment that does not change the base salary, or as a combination of both. During the scope of the audit, the office provided 75 pay rate increases to 52 employees. We tested a random sample of 12 of those increases and found no errors.[12]

Pay rate increases are recorded in the state's payroll system with an effective date. If that effective date is within the current or a future pay period, the payroll system will calculate pay at the new rate starting on the effective date. If that effective date is in a prior pay period, a retroactive pay rate adjustment is paid to the employee. During the audit period, the office paid retroactive pay rate adjustments totaling $12,427 to 13 employees. We tested the accuracy of all of those payments and found no significant issues.

During the scope of the audit, the office promoted 22 employees and increased their salaries accordingly. The salary increases for five of those employees had an effective date in a prior pay period that resulted in retroactive pay rate adjustments.[13] Besides testing the accuracy of those payments, we also tested the accuracy of those employees' new pay rates and found no errors.

Payroll Processing

State employees are paid biweekly. Prior to the COVID-19 pandemic, office employees completed timesheets on paper. In response to office closures caused by the pandemic, the office changed from paper to electronic timesheets. The office has not

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[10] *Minnesota Constitution*, art. V, sec. 4.

[11] *Laws of Minnesota* 2013, chapter 142, art. 6, sec. 12.

[12] The samples tested included seven adjustments to the base salary and five lump-sum payments.

[13] These employees were 5 of the 13 that received retroactive pay rate adjustments.

established its own policy for employee timesheets and instead follows state policy. That policy requires both employees and their supervisors to sign timesheets.[14]

During the scope of the audit, office employees completed 3,633 biweekly timesheets, which included both paper and electronic timesheets. We initially tested a random sample of 60 timesheets and, based on the results, subsequently expanded testing to review 92 additional timesheets.

FINDING 2

The Office of the Governor and Lieutenant Governor employees and supervisors did not always sign employee timesheets.

In our initial sample of 60 timesheets, we found that the employees had not signed 34 timesheets and supervisors had not signed 2. In our expanded sample of 92 additional timesheets, we found that supervisors had not signed 8 timesheets.[15] The signatures on timesheets are the employees' and supervisors' certifications that the timesheets are an accurate record of hours worked and leave taken. Unsigned timesheets increase the risk of inaccurate employee compensation. Office payroll staff told us that for unsigned timesheets, employees and supervisors were contacted to validate that the timesheets were accurate and approved. However, the office did not document those communications or require the employees and supervisors to submit new timesheets that were properly signed.

RECOMMENDATION

The Office of the Governor and Lieutenant Governor should strengthen internal controls over employee timesheets to ensure all timesheets are properly signed.

Mobile Device Allowances

The office's compensation plan and related policy allows for a monthly mobile device allowance payment to employees that must have a cellphone to perform their job duties but elect to use their personal device. During the scope of the audit, the office paid $6,762 to 11 employees for the allowance.[16] We tested all of the allowance payments and found no significant issues.

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[14] Department of Management and Budget, Statewide Operating Policy PAY0016, *Biweekly Time Reporting By Employees*, issued February 2011. For electronic timesheets, the policy states that employees and supervisors must "sign/approve the time report electronically."

[15] The 92 additional timesheets included all other timesheets for the 2 employees with timesheets not signed by supervisors in our initial sample.

[16] The amount of the monthly mobile device allowance was $35 through August 2021 and decreased to $32 in September 2021.

Separation Pay

The office's compensation plan allows for employees to receive payments for unused vacation leave, up to 275 hours for managers and 260 hours for all other staff, upon separation from state service. Employees that meet certain eligibility requirements related to age and years of service also receive severance payments equal to 35 percent of unused sick leave.

During the scope of the audit, the office made $144,221 in vacation payoffs and severance payments to 26 former employees. We tested the accuracy of and eligibility for all of those payments and found no errors.[17]

Holiday Pay

During the scope of the audit, the office's compensation plan provided employees with ten paid holidays and one floating holiday each fiscal year. Employees may use floating holidays whenever they choose, but they lose the floating holiday if it is not used by the end of the fiscal year.

During the scope of the audit, the office paid employees $284,045 for holidays and $24,952 for floating holidays. We tested all of that holiday pay and floating holiday pay.

FINDING 3

The Office of the Governor and Lieutenant Governor incorrectly paid two employees for floating holidays.

The office paid an employee for two floating holidays in Fiscal Year 2021. The employee used the first floating holiday in August 2020 and the second in May 2021. For the second floating holiday, the employee's supervisor approved the employee's timesheet without recognizing that the employee already used a floating holiday that year. The office's payroll staff paid the floating holiday without validating whether the employee still had one available for that year, and told us they thought the state's payroll system contained edits that prevent an employee from receiving multiple floating holidays in the same fiscal year.

The office paid a former employee $144 upon separation from state service for an unused floating holiday. The office's compensation plan does not allow for employees to receive payments upon separation for unused floating holidays. The office did not retain any documentation of an explanation for or approval of the floating holiday payoff.

[17] One vacation payoff was accurate based on the vacation leave balance recorded in the state's payroll system. However, as discussed in Finding 4, the recorded balance was incorrect, which caused a vacation payoff overpayment of $816.

RECOMMENDATIONS

- **The Office of the Governor and Lieutenant Governor should correct the floating holiday pay errors identified.**
- **The Office of the Governor and Lieutenant Governor should strengthen internal controls over floating holiday pay to ensure compliance with its compensation plan.**

Vacation Leave

The office's compensation plan provides for employees to earn between 5 and 9.5 hours of vacation leave each biweekly pay period, based on length of service. Employees may accumulate a vacation leave balance to any amount, provided it is reduced to a cap of 275 hours for managers and 260 hours for all other staff at least once each fiscal year. If the vacation leave balance is not reduced to the cap during a fiscal year, the balance is automatically reduced to the cap by the state's payroll system at the end of the fiscal year. However, the plan also states that the Department of Management and Budget (MMB) may temporarily suspend the automatic reduction to the cap in emergency situations.[18]

During the scope of the audit, five employees did not reduce their vacation leave balances to the cap during one or more fiscal years. The office extended the deadline to reduce the balances for all five employees based on the COVID-19 pandemic. We tested the vacation leave balances and cap extensions for all five of those employees.

FINDING 4

The Office of the Governor and Lieutenant Governor did not reduce the vacation leave balances of four employees who did not reduce their balances to the cap by the required deadline.

The office did not reduce the vacation leave balances for four of the five employees that received vacation cap extensions, as follows:[19]

- One employee received a vacation cap extension to June 30, 2021, after not reducing the vacation leave balance to the cap during Fiscal Year 2020. The extension prevented the forfeiture of 139 hours of vacation leave. However, neither the office nor MMB had any documentation of an approval for the extension. When the employee separated from state service in March 2021, the office made a vacation payoff of $8,843 to the employee for the maximum 260 hours allowed. Since 139 hours of vacation leave should have been

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[18] To perform the testing, we also considered the Department of Management and Budget's memorandum to agency payroll, human resources, and accounting staff, *Vacation Cap Extension Instructions*, issued May 20, 2020.

[19] One of the five employees reduced the vacation leave balance to the cap by the extended deadline.

forfeited, the vacation leave balance at the time of separation should have been 236 hours. As a result, the vacation payoff was overpaid by $816.[20]

- One employee received a vacation cap extension approved by MMB to June 30, 2021, and a subsequent extension also approved by MMB to December 31, 2021, after not reducing the vacation leave balance to the cap during Fiscal Year 2020. The extensions prevented the forfeiture of 173 hours of vacation leave. The employee did not reduce the vacation leave balance to the cap by the extended deadline, of December 31, 2021, and the office did not reduce the balance to the cap or request approval for an additional extension. The office told us the employee's supervisor verbally approved an additional extension in late fall 2021. However, the human resources officer did not request an additional vacation cap extension from MMB. When the employee retired in spring 2022, after using eight weeks of vacation leave at the end of her employment, to reduce the vacation leave balance to 276 hours, the office made a vacation payoff of $14,831 to the employee for the maximum 275 hours allowed. Since the vacation leave balance was not reduced to the cap by the extended deadline, the office should have reduced the balance by the 173 hours that should have been forfeited from Fiscal Year 2020, and the vacation payoff should have been for 103 hours of unused vacation leave. As a result, the vacation payoff was overpaid by $9,276.

- Two employees received vacation cap extensions approved by MMB to December 31, 2021, after not reducing the vacation leave balances to the cap during Fiscal Year 2021. The extensions prevented the forfeiture of 250 hours and 181.25 hours of vacation leave, respectively. Neither employee reduced the vacation leave balance to the cap by the extended deadline, and the office did not reduce the balances to the cap or request approval for additional extensions. As a result, the vacation leave balances as of July 5, 2022, were overstated by 250 hours and 181.25 hours, respectively.

For the employee discussed in the first bullet, evidence suggests that the office intended to include the employee in the request for vacation cap extensions but did not due to an oversight. For the employees discussed in the second and third bullets, the office's former human resources officer responsible for the vacation cap extensions submitted her resignation from the office on December 21, 2021, effective January 5, 2022. Evidence suggests that the former employee did not sufficiently document or otherwise inform the employee that took over her duties about the vacation cap extensions.

For the employees discussed in the first two bullets, OLA and the Office of the Governor and Lieutenant Governor have a difference of interpretation on how to determine when an employee has reached the vacation cap. The office did not include earned vacation when calculating the balance for the vacation cap requirement each pay period. We disagree with this approach. Based on our interpretation, the earned vacation should be included in the calculation.

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[20] We noted that during the last pay period worked by the employee prior to separation from state service, the employee donated 40 hours of vacation leave under the state's vacation donation program. If the vacation leave balance had been properly reduced by 139 hours, the employee would have likely donated just 16 hours to ensure the vacation payoff was for the maximum 260 hours allowed.

RECOMMENDATIONS

- **The Office of the Governor and Lieutenant Governor should address the vacation leave balance issues identified.**
- **The Office of the Governor and Lieutenant Governor should strengthen internal controls over employee vacation leave balances to ensure accumulated balances comply with provisions in its compensation plan.**

The office's compensation plan provides for managers to convert up to 50 hours of vacation leave to deferred compensation each fiscal year. During the scope of the audit, eight employees converted a total of 820 hours of vacation leave to deferred compensation. We tested all of those vacation leave conversions and found no errors.

Other Paid Leave

The office's compensation plan provides for up to 240 hours of paid parental leave following the birth or adoption of a child. The plan states:

> Employees are eligible if they meet eligibility criteria for Family and Medical Leave Act ("FMLA") leave, which generally means the employee has been employed by the Governor's office for twelve (12) months and has worked at least 1,250 hours during the year immediately preceding the leave.

During the scope of the audit, ten office employees received paid parental leave totaling $83,008. We tested all of that leave.

The office's compensation plan also incorporated by reference the state policy for paid COVID-19 leave.[21] The policy provided paid leave for various reasons related to COVID-19, with different limits for each reason, as follows:[22]

- COVID-19 School Leave was leave needed to care for children whose school or childcare was closed due to COVID-19. Compensation for this reason was limited to 2/3 of the employee's regular rate of pay and capped at $200 per day. Employees were allowed to use vacation leave for any differences between their normal salary and the COVID-19 leave compensation.
- COVID-19 Health Leave was leave needed because the employee is unable to work due to being ill with COVID-19 symptoms or being under quarantine. Compensation for this reason was capped at $511 per day. Employees were allowed to use sick leave or vacation leave for any differences between their normal salary and the COVID-19 leave compensation.

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[21] Department of Management and Budget, Human Resources/Labor Relations Policy #1440, *Paid COVID-19 Leave*, issued March 18, 2020, revised April 1, 2020, April 7, 2020, and July 22, 2020. The policy expired on December 31, 2020.

[22] *Ibid*.

- COVID-19 Care Leave was leave needed to care for an individual who depended on the employee to care for them and who was ill with COVID-19 symptoms or under quarantine. Compensation for this reason was limited to 2/3 of the employee's regular rate of pay and capped at $200 per day. Employees were allowed to use sick leave or vacation leave for any differences between their normal salary and the COVID-19 leave compensation.

During the scope of the audit, three office employees received paid COVID-19 leave totaling $5,859. We tested all of that leave.

FINDING 5

The Office of the Governor and Lieutenant Governor did not appropriately document employee eligibility for paid parental leave or paid COVID-19 leave.

The office provided paid parental leave to two employees who were not employed by the office for 12 months preceding the leave. The office did not document its rationale for granting an exception to its policy. The office told us that it matched each employee's vacation leave balance from their prior employer, which is allowed by the office's compensation plan at the discretion of the chief of staff or chief operating officer when the prior experience is directly related to the employee's new position with the office. The office's compensation plan does not specifically provide that same type of discretion to the chief of staff or chief operating officer regarding eligibility for paid parental leave. One employee received 240 hours of paid parental leave totaling $10,344, and the other received 224 hours of paid parental leave totaling $7,526. Each employee was pregnant when hired by the office, and each used all of the paid parental leave within seven months of their hire date. Without sufficient documentation, we could not determine the reason the office granted the exceptions or whether those exceptions were properly approved by management.

The office also did not retain any documentation, other than timesheets for the paid COVID-19 leave it provided. State policy required employees to complete a specific form for paid COVID-19 leave that included the reason for the leave and required office management approval for the leave. Without sufficient documentation, we could not determine whether the employees received paid COVID-19 leave for eligible reasons, whether the amounts paid complied with the limits stated in the policy, and whether the leave was properly approved by office management.

RECOMMENDATION

The Office of the Governor and Lieutenant Governor should strengthen internal controls over other paid leave to ensure it sufficiently documents employee eligibility and management approval for the leave.

Nonpayroll Expenditures

During the scope of the audit, the office had $3,430,815 in nonpayroll expenditures. Exhibit 5 shows the nonpayroll expenditures by type.

Exhibit 5: Nonpayroll Expenditures, July 1, 2019, through December 31, 2021

Type	Amount
Rent	$1,087,909
Professional/Technical Services[a]	314,263
Purchases with State Purchasing Cards	177,108
Employee Expense Reimbursements	32,843
Expenditures Reductions[b]	(59,253)
Other Goods and Services[c]	1,877,945
Total	$3,430,815

[a] Includes $80,960 for two purchases that we omitted from the scope of this audit and instead included in the scope of a separate audit of emergency purchases related to COVID-19. The report for that audit will be released after this report.

[b] Includes $39,987 in receipts, which we tested as noted on page 12, and $19,266 in miscellaneous expenditure reductions that we did not test.

[c] Includes printing and advertising, computer services, communications, travel, employee development, supplies, equipment, repairs and maintenance, and other purchased services.

SOURCE: State of Minnesota's accounting system.

State Accounting System Access

The office utilizes the state's accounting system to complete daily transactions, including recording receipts and paying vendors. The accounting system contains several different access profiles that allow assigned users to perform various functions. We reviewed employee access rights to the accounting system and found no issues.

Rent

The office's rent expenditures during the scope of the audit included $1,047,436 for space in the State Capitol Building and $40,473 for parking spaces in various state lots. We tested all expenditures for space in the State Capitol Building and analyzed all of the expenditures for parking spaces and found no issues.

Professional/Technical Services

As noted in Exhibit 5, we included $233,303 in professional/technical services in the scope of the audit; these services included 17 purchases with 12 different vendors. We tested a random sample of 8 of those purchases, and 2 additional purchases selected based on our analysis, and found no issues.

Purchases with State Purchasing Cards

The office utilizes state purchasing cards to pay for certain goods and services, the most common of which during the scope of the audit were supplies and travel costs for employees conducting state business. Office policy establishes guidelines for the use of state purchasing cards, including permissible and prohibited uses; maximum amounts for individual transactions ($5,000) and total transactions in a billing cycle ($20,000); and recordkeeping requirements. U.S. Bank provides the state purchasing cards and invoices each participating state agency monthly.

During the scope of the audit, the office used state purchasing cards for $281,251 in expenses.[23] We tested all of the state purchasing card activity for a random sample of 7 of the 30 months in the scope of the audit and found that the office complied with its policy for the use of the cards and recordkeeping requirements.

During the scope of the audit, nine office employees had state purchasing cards. The office's policy included inconsistent requirements for the frequency of new use agreements signed by cardholders. One section of the policy states that new use agreements must be signed every three years, but another section states the new agreements must be signed every four years.[24] In comparison, state policy requires cardholders to sign a new use agreement every three years.[25]

FINDING 6

The Office of the Governor and Lieutenant Governor did not require cardholders of state purchasing cards to periodically sign new use agreements in compliance with its policy.

The office did not require several of its state purchasing cardholders with expired use agreements to sign new agreements. As of June 2022, five of the nine cardholders had use agreements that were signed more than four years prior, and eight of the nine had use agreements that were signed more than three years prior. Office staff told us they did not initiate new agreements with the cardholders because they were not aware of the requirement to periodically sign new use agreements. The office policy explains that the purpose of the requirement to sign new use agreements is to validate the cardholder's need for a card and to ensure cardholders receive updated training.

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[23] Purchases included $177,108 from the office's appropriation accounts and $104,143 from a Department of Administration appropriation account in the Plant Management Fund with a budget for the household expenses of the Governor's residence.

[24] Office of the Governor and Lieutenant Governor, *Office of Governor Tim Walz & Lt. Governor Peggy Flanagan, Policy on Purchasing Card Use*, issued December 5, 2018. The policy states that the duties of the purchasing card administrator include "ensuring that cardholders sign a new Authorized User Purchasing Card Acknowledgement of Use Agreement every three years." The policy also states that cardholder duties include "re-signing the Purchasing Card Acknowledgement of Use agreement every four years."

[25] Department of Administration, Office of State Procurement, *Purchasing Card Use Policy 1b*, Section 2.41, effective November 1, 2013.

RECOMMENDATIONS

- **The Office of the Governor and Lieutenant Governor should require the cardholders identified with expired agreements to sign new use agreements.**
- **The Office of the Governor and Lieutenant Governor should revise its policy to clearly indicate the frequency that new use agreements must be signed by cardholders.**
- **The Office of the Governor and Lieutenant Governor should strengthen internal controls over state purchasing cards to ensure each cardholder signs new use agreements as required by its policy.**

Employee Expense Reimbursements

The office reimburses expenses incurred by employees for legitimate state business. During the scope of the audit, the office reimbursed employees for $57,939 in business expenses submitted on 454 separate expense reports. We tested a random sample of 40 of those expense reports and found no errors. The office also withheld $25,096 from the Governor's salary for food purchased for the Governor's residence. We analyzed those withholdings and found no issues.

Other Goods and Services

During the scope of the audit, the office had 1,029 expenditures totaling $1,877,945 for the various types of expenditures noted in Exhibit 5. We tested a random sample of 25 of those expenditures and found no significant issues.

Those expenditures included $55,389 for the use of state airplanes. The Minnesota Department of Transportation maintains and operates airplanes that state government officials and employees use to travel on official state business. The office reviews all event requests and has a team that evaluates whether airplane use is for official state business. If the office receives event requests that are strictly political in nature, they are referred to the Governor's political campaign. We examined the event requests for all 22 state airplane trips the office paid for during the scope of the audit and found that none of them were political in nature.

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List of Recommendations

- The Office of the Governor and Lieutenant Governor should document how it determines the total amount to collect each fiscal year from state agencies for services provided and the portion of that total amount to allocate to each agency. (p. 11)

- The Office of the Governor and Lieutenant Governor should ensure the allocation factors stated in the interagency agreements for services provided to state agencies match the actual factors used. (p. 11)

- The Office of the Governor and Lieutenant Governor should document in the interagency agreements how to resolve unspent money at the end of the fiscal year. (p. 11)

- The Office of the Governor and Lieutenant Governor should strengthen internal controls over employee timesheets to ensure all timesheets are properly signed. (p. 15)

- The Office of the Governor and Lieutenant Governor should correct the floating holiday pay errors identified. (p. 17)

- The Office of the Governor and Lieutenant Governor should strengthen internal controls over floating holiday pay to ensure compliance with its compensation plan. (p. 17)

- The Office of the Governor and Lieutenant Governor should address the vacation leave balance issues identified. (p. 19)

- The Office of the Governor and Lieutenant Governor should strengthen internal controls over employee vacation leave balances to ensure accumulated balances comply with provisions in its compensation plan. (p. 19)

- The Office of the Governor and Lieutenant Governor should strengthen internal controls over other paid leave to ensure it sufficiently documents employee eligibility and management approval for the leave. (p. 20)

- The Office of the Governor and Lieutenant Governor should require the cardholders identified with expired agreements to sign new use agreements. (p. 23)

- The Office of the Governor and Lieutenant Governor should revise its policy to clearly indicate the frequency that new use agreements must be signed by cardholders. (p. 23)

- The Office of the Governor and Lieutenant Governor should strengthen internal controls over state purchasing cards to ensure each cardholder signs new use agreements as required by its policy. (p. 23)

OLA

August 10, 2022

Judy Randall
Legislative Auditor
Room 140 Centennial Office Building
658 Cedar Street
St. Paul, MN 55155-1603

Re: Performance Audit

Dear Ms. Randall:

Thank you for the opportunity to review and comment on the findings and recommendations from the recent audit of the Office of the Governor and Lieutenant Governor for July 2019 through December 2021. The audit scope period included the most intense period of the COVID-19 pandemic, which imposed unprecedented pressures on our office and our state. We were lucky to inherit a seasoned operations and financial controls team that had served under both Governors Pawlenty and Dayton. That team worked tirelessly to transition our office's operations to a remote work environment for the first time in Minnesota history.

We appreciate and value the professional review conducted by the OLA's staff. That work shows that—despite the extraordinary challenges posed by the pandemic—the Office of the Governor and Lieutenant Governor complied with significant finance-related legal requirements and maintained adequate internal controls.

We were heartened to see that your sampling of more than $3 million in necessary business expenses, professional/technical contracts, employee expense reimbursements, and other goods and services found no issues. Your report makes clear that our office takes seriously its responsibility to steward public resources and ensure adequate internal controls.

We appreciate the OLA's collaborative work with our office to identify opportunities to improve our financial systems and internal controls. Many of the findings identified in the OLA's report have already been resolved, and we will continue to strengthen our internal controls based on your recommendations. Below are our office's responses to the audit findings cited in the performance audit report:

1. The Office of the Governor and Lieutenant Governor did not adequately document key components of its interagency agreements with state agencies. Specifically, the Office of the Governor and Lieutenant Governor did not document how it determined the total amount to collect each fiscal year from state agencies for services provided, how it determined the portion

of that total amount to allocate to each, or how to resolve unspent money at the end of the fiscal year.

Response: As noted in the OLA's report, our office inherited the same mechanism to fund our office's agency work that was employed by Governors Pawlenty and Dayton. Like prior administrations, the office evaluates the support needed for enterprise coordination on an annual basis and uses interagency agreements with state agencies to collect the funds. Payments are deposited in a special revenue account and appropriated to the office. As was noted by Governor Dayton's Office in 2015, our practices are consistent with those of previous administrations since as early as 2005. We are unaware of any law or rule that suggests that this practice is improper. We are operating well within our authority to use unspent funds from one fiscal year to the next. We will assess our future interagency agreements in light of this finding.

2. The Office of the Governor and Lieutenant Governor employees and supervisors did not always sign employee timesheets.

Response: As the report acknowledges, prior to the COVID-19 pandemic office employees completed timesheets on paper. In response to office closures caused by the pandemic, the office changed from paper to electronic timesheets, and—in limited cases during the pandemic—verbal approvals were necessary to ensure timely payroll processing.

Our office already has a multi-step timesheet and payroll approval process that includes review by the employee, manager, Chief Operating Officer, and payroll processer before an employee's time is entered in the payroll system. We will expand upon our existing strong internal controls by implementing use of Employee Self-Service for timesheets by December 31, 2022.

3. The Office of the Governor and Lieutenant Governor incorrectly paid two employees for floating holidays.

Response: We have corrected the two floating holiday issues identified in the report and strengthened internal controls for payroll processing of floating holidays.

4. The Office of the Governor and Lieutenant Governor did not reduce the vacation leave balances of four employees who did not reduce their balances to the cap by the required deadline.

Response: Our office has strengthened its process for monitoring vacation leave balances. We granted a limited number of leave balance extensions given the exigencies posed by the pandemic. The office has reviewed the vacation leave calculations identified in the report and ensured that the necessary approvals are documented for all vacation leave balance extensions and subsequent payments. There are no current vacation leave extensions, and the office has ensured that current vacation leave balances are in alignment with our office's compensation plan.

5. The Office of the Governor and Lieutenant Governor did not appropriately document employee eligibility for paid parental leave or paid COVID-19 leave.

Response: The OLA's audit demonstrates that our office had adequate controls in place for the vast majority of paid leave requests that were processed during the audit period but could improve its internal controls and documentation related to employee eligibility upon transfer into the office with prior public service.

We appreciate this opportunity to review and improve our policy and procedures for transfer employee eligibility for paid leave and will ensure request forms are completed in addition to timesheets to document management approval of paid leave requests.

6. The Office of the Governor and Lieutenant Governor did not require cardholders of state purchasing cards to periodically sign new use agreements in compliance with its policy.

Response: We appreciate the OLA's thorough review and finding that our office complied with its policy for the use of purchasing cards and recordkeeping requirements. We are also proud that the samples tested showed a variety of transactions and purchasing card activity with no financial concerns or malfeasance.

Our office has updated its purchasing card policy to align with the statewide policy and has strengthened internal controls to ensure that purchasing cardholders sign new use agreements every three years.

Sincerely,

Chris Schmitter
Chief of Staff

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