OFFICE OF THE GOVERNOR

FINANCIAL AND COMPLIANCE AUDIT

FOR THE FISCAL YEARS ENDING JUNE 30, 1985 AND 1986
AND FOR THE SIX MONTHS ENDING DECEMBER 31, 1986

MAY 1987

Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

87-4

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STATE OF MINNESOTA
OFFICE OF THE LEGISLATIVE AUDITOR
VETERANS SERVICE BUILDING, ST. PAUL, MN 55155 • 612/296-4708
JAMES R. NOBLES, LEGISLATIVE AUDITOR

Representative Phillip Riveness, Chairman
Legislative Audit Commission

Members of the Legislative Audit Commission

and

The Honorable Rudy Perpich
Governor of Minnesota

Audit Scope

We have completed a financial and compliance audit of the Office of the Governor for the fiscal years ending June 30, 1985 and 1986, and for the six months ending December 31, 1986. Section I provides a brief description of the Governor's Office activities and finances. Our audit was made in accordance with generally accepted auditing standards and the standards for financial and compliance audits contained in the U.S. General Accounting Office Standards for Audit of Governmental Organizations, Programs, Activities, and Functions, and accordingly, included such audit procedures as we considered necessary in the circumstances. Field work was completed on March 13, 1987.

The objectives of the audit were to:

- study and evaluate internal control systems within the Office of the Governor, including a review of receipts, payroll, fixed assets, gifts, and administrative disbursements;
- verify that financial transactions were properly recorded in the statewide accunting system;
- verify that financial transactions were made in accordance with the State Constitution, Article V, applicable laws, regulations, and policies, including Minn. Stat. Chapter 4, and other finance-related laws and regulations; and
- determine the status of prior audit recommendations included in our audit report for the period January 1 to June 30, 1983 and the year ended June 30, 1984.

This audit was conducted in accordance with the policy of the Legislative Auditor to perform audits of the administrative practices of the six elected state constitutional officers as follows:

-- an audit to commence not later than June 30 of the third year in office, so that a report is issued by the end of the third year in the term, and

-- an audit to commence in December of the fourth year, so that a report is issued soon after the end of the term.

This schedule is not meant to preclude the Legislative Auditor from making an interim audit if deemed necessary, or as directed by the Legislature or the Legislative Audit Commission.

Management Responsibilities

The management of the Office of the Governor is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

The management of the Office of the Governor is also responsible for the agency's compliance with laws and regulations. In connection with our audit, we selected and tested transactions and records from the programs administered by the Office of the Governor. The purpose of our testing of transactions was to obtain reasonable assurance that the Office of the Governor had, in all material respects, administered its programs in compliance with applicable laws and regulations.

Audit Techniques

In the course of our audit, we employed a variety of audit techniques. These included, but were not limited to, auditor observation, interviews with agency staff, analytical reviews to identify unusual transactions or trends, and the examination of documentation supporting a representative number of transactions. Statistical sampling techniques were used to assure that representative samples of transactions were chosen. However, the use of statistical sampling did not prohibit us from reviewing additional transactions which may have come to our attention during the audit.

Conclusions

In our opinion, except for the issues addressed in Section II, recommendations 1-3, the system of internal accounting control in the Office of the Governor in effect as of March 13, 1987, taken as a whole, was sufficient to provide management with reasonable, but not absolute assurance, that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly.

In our opinion, for the period July 1, 1984 to December 31, 1986, the Office of the Governor properly recorded, in all material respects, its financial transactions on the statewide accounting system.

In our opinion, for the period July 1, 1984 to December 31, 1986, the Office of the Governor administered its programs in compliance, in all material respects, with applicable finance-related laws and regulations, and with Minn. Stat. Chapter 4.

Section II of this report contains the recommendations we developed during this audit. They are presented to assist the department in improving accounting procedures and controls. We will be monitoring and reviewing the Office of the Governor's progress on implementing these recommendations during the next audit. A summary of the progress made on all audit recommendations discussed in our last audit report covering the six months ending June 30, 1983 and the year ended June 30, 1984, dated August 1985, is shown in Section III entitled "Status of Prior Audit Recommendations and Progress Toward Implementation."

We would like to thank the Governor's staff for their cooperation during this audit.

James R. Nobles
Legislative Auditor

John Asmussen, CPA
Deputy Legislative Auditor

May 8, 1987

OFFICE OF THE GOVERNOR

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AUDIT PARTICIPATION

The following staff from the Office of the Legislative Auditor prepared this report:

John Asmussen, CPA	Deputy Legislative Auditor
Warren Bartz, CPA	Audit Manager
Jack Hirschfeld, CPA	Auditor-in-Charge
Dave Poliseno	Staff Auditor
Chris Buse	Staff Auditor

EXIT CONFERENCE

The findings and recommendations in this report were discussed with the following staff of the Office of the Governor on March 13, 1987:

Terry Montgomery	Chief of Staff
Lynn Anderson	Deputy Chief of Staff
John Pemble	Accounting Coordinator

OFFICE OF THE GOVERNOR

I. INTRODUCTION

The Office of the Governor was established as part of the executive branch of state government by Article V of the Constitution and operates under Minn. Stat. Chapter 4. The Governor is elected by the voters for a four year term which begins on the first Monday of January. The Governor is the chief executive and responsible for the administration of state government, the proposals of biennial budgets, appointments, proposal and review of legislation, and the preparation of comprehensive long-range plans for state growth.

Most activities of the Governor's Office are financed primarily through General Fund appropriations. Cash basis expenditures for normal operations during fiscal years 1985, 1986, and the first half of 1987 are as follows:

General Fund	Year Ended June 30, 1985	Year Ended June 30, 1986	Six Months Ended December 31, 1986
Personal Services	$1,594,249	$1,443,494	$548,040
Travel & Subsistence	91,055	70,999	35,789
Supplies & Equipment	199,867	149,916	21,849
Other Administrative Expenditures	390,152	432,732	256,799
TOTAL	$2,275,323	$2,097,141	$862,477

In fiscal year 1986, the Governor's Office appointed a commission to review evidence to determine if there was a basis to remove the Scott County Attorney from office. The commission, through the Office of the Attorney General, contracted with a private law firm to complete the investigation. The Governor's Office expended $198,601 from the General Fund for this investigation, but the amount is not included in the operating expenses shown above.

During fiscal years 1985 and 1986, the Governor's Office received $87,100 in donations for the Governor's Council on Economic Development. Over $70,772 of the donations was expended during this same period to promote business development in Minnesota in accordance with the terms established by the donors. The money was used to pay for the travel expenses of Governor Perpich, Mrs. Perpich, and some staff members.

II. CURRENT FINDINGS AND RECOMMENDATIONS

PRIOR RECOMMENDATION NOT IMPLEMENTED: The mail receipts ledger for the Governor's Office is not reconciled to Statewide Accounting (SWA) receipt reports.

The Governor's Office received over $125,000 in checks between July 1, 1984 and December 31, 1986. These checks consisted mainly of contributions to the Economic Development Council and for reimbursement of state travel expenses incurred by media newspeople. The Governor's receptionist recorded in a ledger checks received through the mail, and listed the date the checks were received, the payor, the check number, and the amount. The checks were then taken by courier to the accounting coordinator for deposit into the treasury and for recording onto the SWA system. In the beginning of fiscal year 1985, the Governor's Office reconciled checks listed on the receipts ledger to deposits shown on SWA reports to ensure that all checks received were deposited properly. However, during fiscal year 1985, this practice was discontinued, and checks totaling $83,363 were not reconciled to SWA records. As a result, the Governor's Office was not able to determine whether these checks were deposited and properly recorded on the SWA system.

Department of Finance Operating Policy and Procedure 06:06:03 requires a reconciliation of receipts to verify the accuracy of SWA records. In addition, the reconciliation helps to verify that the contributions were deposited into the proper account and that the funds were available for use in accordance with the donor's intentions.

We also determined that during fiscal years 1985 and 1986, eleven checks totaling approximately $3,200 were not recorded in the mail receipts ledger. Unless all checks received are recorded in the mail receipts ledger, the reconciliation of the receipt ledger to SWA records cannot be completed.

RECOMMENDATION:

1. **All checks received at the Governor's Office should be recorded on the mail receipts ledger, which should be periodically reconciled to SWA receipt records.**

A contract between the State of Minnesota and the State of Wisconsin for the allocation and reimbursement of shared Washington, D.C. office costs needs to be established.

An office was established in Washington, D.C. in 1983 by the Governor. This office serves as a liaison to the federal government and works with the state congressional delegation and key federal committee staff promoting legislation which would benefit Minnesota. Operating costs for salaries, rent, travel, and other office expenses of the Washington, D.C. office total approximately $150,000 per year.

Prior to fiscal year 1986, a contract was in effect which provided for the reimbursement of Wisconsin by Minnesota for one-half of the secretarial salary costs. However, since the beginning of fiscal year 1986, no contract has been in effect. Minnesota has been paying the Minnesota employee's salary of approximately $22,000 annually, and has been relying on Wisconsin to reimburse them for one-half of the costs.

During fiscal year 1986, Wisconsin purchased over $11,000 in various office supplies and services and at year-end billed Minnesota for one-half of these costs. The Governor's Office had not anticipated all of these costs and had not encumbered sufficient funds; as a result, $971 of fiscal year 1986 expenditures were paid out of fiscal year 1987 funds. A need for a clear agreement exists, because Wisconsin billed Minnesota for some items which clearly were not for Minnesota business. These items were deleted before the bill was paid.

A contract between Minnesota and Wisconsin that outlines each state's responsibility and provides a method for identifying, allocating, and reimbursing shared costs would help to reduce potential reimbursement problems. It would also help to prevent unanticipated expenditures at year-end.

RECOMMENDATION:

2. **The Governor's Office should initiate a contract with the state of Wisconsin for payment of shared Washington D.C. office costs. This contract should identify all shared costs and provide for the allocation and reimbursement of these costs.**

<u>The Governor's Office needs to monitor contracts with other agencies</u>.

Pursuant to 1986 Laws, First Special Session, Chapter 1, Article 10, Section 1, Subd. 9, the Governor's Office was appropriated $50,000 to study the feasibility of establishing a separate campus of Arrowhead Community College on the Fond du Lac Indian Reservation. The Governor appointed a 13 member task force, as required by the appropriation law, to conduct the study. The law applied Minn. Stat. Section 15.059, Subd. 6 to task force members and essentially exempted them from receiving any compensation other than reimbursement of eligible expenses.

The Governor appointed the task force members and then contracted with the State Planning Agency to administer the appropriation. The contract contained minimal guidance and made the entire $50,000 available to State Planning effective September 1, 1986. The State Planning Agency in turn contracted with the Fond du Lac Indian Reservation to complete the feasibility study. The contract was not specific and basically provided for paying four equal installments of $12,500 to the reservation. The study was completed and a final report issued on February 2, 1987.

We are concerned with the lack of specificity and monitoring associated with these contracts. The contract terms did not correlate payments to expenses incurred and were not specific on eligible expenses. We could not determine whether any payments to task force members conformed to Minn. Stat. Section 15.059. Although this project was delegated to the State Planning Agency, we believe the Governor's Office remains responsible for ensuring that prudent fiscal practices and provisions of the appropriation law are followed.

RECOMMENDATION:

3. **The Governor's Office should provide more specific guidance and institute monitoring procedures for future projects contracted to other agencies.**

III. STATUS OF PRIOR AUDIT RECOMMENDATIONS AND PROGRESS TOWARD IMPLEMENTATION

Unexpended federal cash for Upper Great Lakes development projects has not yet been returned.

1. The unexpended federal cash from Upper Great Lakes grants should be returned to the appropriate federal agency, unless another disposition is determined.

RECOMMENDATION IMPLEMENTED. The unexpended cash balance from Upper Great Lakes grants was returned to the Upper Great Lakes Regional Commission on May 28, 1985.

The Governor's Office needs to develop written procedures for the review and approval of special expenses, including those for international travel and the Washington, D.C. office.

2. The Governor's Office should develop written procedures for the review and approval/disapproval of special expenses including reimbursement provisions for international travel and the Washington, D.C. office. The procedures should be submitted to the Departments of Employee Relations and Finance for review. Any delegation of authority under the procedures should be filed with those departments and the Secretary of State.

RECOMMENDATION IMPLEMENTED. New procedures for the review and approval of special expenses were developed by the Accounting Coordinator on December 16, 1985. The procedures were approved by the Departments of Employee Relations and Finance on January 23, 1986.

The mail receipts ledger for the Governor's Office is not reconciled to Statewide Accounting (SWA) receipt reports.

3. The receipts ledger for the Governor's Office should be periodically reconciled to SWA receipt reports.

RECOMMENDATION NOT IMPLEMENTED. See current recommendation #1.

Inadequate internal control exists over donations received at the Governor's residence.

4. The Governor's residence staff should maintain better control over donations by including the following procedures:

   - the resident staff should maintain ledgers of all donations received; and

   - an independent person should periodically reconcile these ledgers with deposits recorded on the SWA System.

4. (con't)

RECOMMENDATION PARTIALLY IMPLEMENTED. The Governor's residence currently uses a ledger to record all checks received. However, the checks recorded on the ledger are not reconciled to the deposits recorded on the Statewide Accountiung (SWA) System.

Because receipts for the Governor's Residence Council are processed by the Department of Administration, this finding has been referred to the Department of Administration for resolution and will be included in the report for that department.

STATE OF MINNESOTA

OFFICE OF THE GOVERNOR

ST. PAUL 55155

RUDY PERPICH
GOVERNOR

May 8, 1987

James R. Nobles
Legislative Auditor
State of Minnesota
Office of the Legislative Auditor
Veterans Service Building
St. Paul, Minnesota 55155

Dear Mr. Nobles:

Enclosed is the detailed response to the audit of the Governor's Office for the two-and-one half year period ended December 31, 1986.

Sincerely,

Terry Montgomery

Terry Montgomery
Chief of Staff

GOVERNOR'S OFFICE

RESPONSES TO CURRENT FINDINGS AND RECOMMENDATIONS

AUDIT PERIOD: JULY 1, 1984 THROUGH DECEMBER 31, 1986

Recommendation

1. All checks received at the Governor's Office should be recorded on the mail receipts ledger, which should be periodically reconciled to SWA receipt records.

Response

1. The Accounting Coordinator has now been assigned the responsibility of reconciling the Governor's Office receipts ledger to monthly (SWA) reports.

Recommendation

2. The Governor's Office should initiate a contract with the state of Wisconsin for payment of shared Washington D.C. office costs. This contract should identify all shared costs and provide for the allocation and reimbursement of these costs.

Response

2. The operations of the Washington Office were transferred to the Department of Energy and Economic Development (Reorganization Order Number 142). The Director of the Minnesota Washington Office and the D.E.E.D. Accounting Director were both advised that a contract agreement is necessary to document terms and conditions of shared arragements with other tenants in the Washington Office.

Recommendation

3. The Governor's Office should provide more specific guidance and institute monitoring procedures for future projects contracted to other agencies.

Response

3. The designated agents for each contract agreement will be responsible for assurring that contract performance is acceptable, and the Accounting Coordinator will review all contracts to assure that terms and conditions require complete accountability for payments requested.