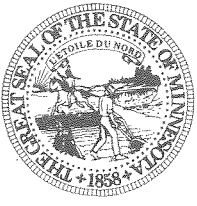


**GOVERNOR'S RESIDENCE COUNCIL  
FINANCIAL AND COMPLIANCE AUDIT  
FOR THE PERIOD FROM JULY 1, 1983  
TO MARCH 31, 1988**

**AUGUST 1988**





STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

VETERANS SERVICE BUILDING, ST. PAUL, MN 55155 • 612/296-4708

JAMES R. NOBLES, LEGISLATIVE AUDITOR

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Representative Phillip J. Riveness, Chair  
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. Alexander Hill, Chair  
Governor's Residence Council

Members of the Governor's Residence Council

Ms. Diann Anders, Coordinator  
Governor's Residence Council

Audit Scope

We have completed a financial and compliance audit of the Governor's Residence Council for the period from July 1, 1983 to March 31, 1988. Section I provides a brief description of the Council's 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 April 27, 1988.

The objectives of the audit were to:

- verify that financial transactions were properly recorded in the statewide accounting (SWA) system; and
- verify that financial transactions were made in accordance with applicable laws, regulations, and policies, including Minn. Stat. Section 16B.27, and other finance-related laws and regulations.

Management Responsibilities

The Department of Administration provides administrative support for the Governor's Residence Council by entering the biweekly payroll onto the state's payroll system, depositing Council receipts, and processing invoices for payment after initial authorization by Council staff. The management of the Council is, however, ultimately responsible for its financial operations.

The management of the Governor's Residence Council is also responsible for the Council's compliance with laws and regulations. In connection with our audit, we selected and tested transactions and records from the

Representative Phillip J. Riveness, Chair  
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Governor's Residence Council  
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programs administered by the Council. The purpose of our testing transactions was to obtain reasonable assurance that the Council had, in all material respects, administered their programs in compliance with applicable laws and regulations.

### Conclusions


In our opinion, except for the issues raised in Section II, findings 1 and 3, for the period from July 1, 1983 to March 31, 1988, the Governor's Residence Council properly recorded, in all material respects, its financial transactions on the statewide accounting system.


In our opinion, except for the issues raised in Section II, finding 1, for the period July 1, 1983 to March 31, 1988, the Governor's Residence Council administered its programs in compliance, in all material respects, with applicable finance-related laws and regulations.

Our audit was conducted only for the limited purpose described in the Audit Scope section of this letter and would not necessarily disclose all material weaknesses in the Council's system of internal accounting control. Accordingly, we do not express an opinion of the system of internal accounting control of the Governor's Residence Council taken as a whole. However, our audit disclosed the issues discussed in Section II, findings 1, 2, and 3, which we believe are important and should be addressed by the management. Our audit also disclosed that, because of the limited size of the staff, the Council has limited separation of financial-related duties. A good system of internal accounting control contemplates an adequate segregation of duties so that no one individual handles a transaction from inception to completion. While we recognize that the Council is not large enough to permit an adequate separation of duties in all respects, it is important that the management is aware of this condition.

The recommendations included in the audit report are presented to assist the Council in resolving the audit findings and in improving accounting procedures and controls. We will be monitoring and reviewing the Council's progress on resolving these findings.

We would like to thank the staff of the Governor's Residence Council and the Department of Administration for their cooperation during this audit.

  
James R. Nobles  
Legislative Auditor

  
John Asmussen, CPA  
Deputy Legislative Auditor

August 15, 1988

# GOVERNOR'S RESIDENCE COUNCIL

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## AUDIT PARTICIPATION

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

John Asmussen, CPA	Deputy Legislative Auditor
Warren Bartz, CPA	Audit Manager
Linda Lochner	Auditor-in-Charge

## EXIT CONFERENCE

The findings and recommendations in this report were discussed with the following on April 27, 1988:

### Governor's Residence Council

Alexander Hill	Council Chair
Diann Anders	Council Coordinator

### Department of Administration

Mary Foster	Administration Fiscal Agent
Karen Carpenter	Director of Administrative Services
Terry Lewko	Plant Management Fixed Assets Coordinator



# GOVERNOR'S RESIDENCE COUNCIL

## I. INTRODUCTION

The Governor's Residence Council, created in 1980, was formed to develop an overall restoration plan for the Governor's residence and surrounding grounds. Primary functions of the Council are to implement the overall restoration plan, to approve alterations and additions to the existing structure and grounds, to maintain and improve the quality of furnishings, and to solicit contributions. The Council operates under the provisions of Minn. Stat. Section 16B.27.

The Council consists of fifteen volunteer members, seven of which are appointed by the Governor. The Council employs one part-time coordinator, who currently is Diann Anders.

Activities of the Council are entirely funded through private donations from individuals, foundations, and organizations. The following is a summary of the Council's expenditures and receipts for fiscal years 1984 through 1987:

	<u>FY 1984</u>	<u>FY 1985</u>	<u>FY 1986</u>	<u>FY 1987</u>
Fundraising	\$ -0-	\$ -0-	\$ -0-	\$ 34,890
Interior design	65,662	163,196	47,409	2,425
Architecture	5,900	122,937	77,487	903
Public relations	386	344	591	483
Council expenses	<u>26,449</u>	<u>26,549</u>	<u>26,995</u>	<u>14,510</u>
 TOTAL EXPENDITURES	 <u>\$ 98,397</u>	 <u>\$313,026</u>	 <u>\$152,482</u>	 <u>\$ 63,211</u>
 TOTAL DONATIONS	 <u>\$105,547</u>	 <u>\$348,628</u>	 <u>\$110,117</u>	 <u>\$153,554</u>

## GOVERNOR'S RESIDENCE COUNCIL

### II. CURRENT FINDINGS AND RECOMMENDATIONS

#### 1. Governor's Residence Council fixed asset records and controls need improvement.

The Governor's Residence Council is responsible for maintaining and improving the furnishings of the Governor's residence. These furnishings are purchased with donated funds or received as gifts in-kind. All such expenditures and use of gifts for the residence must be approved by the Council.

Weaknesses in the recording and control of the Council's fixed assets exist. First, three separate agencies assume independent roles in maintaining the fixed assets. The agencies have not defined nor coordinated responsibilities among themselves. The Council coordinator accepts donated items approved by the Council and purchases additional furnishings for the residence. An employee of the Governor's Office receives the furnishings and maintains a list of fixed assets in the residence. This employee is also responsible for assigning and attaching an asset number to the furnishings. An employee of the Department of Administration's Plant Management Division does a physical inventory on a regular basis, but does not report the results to the Council. Ultimately the Council has full responsibility to maintain control over the fixed assets. However, in fulfilling their responsibility, they may delegate duties to the other two agencies. The Council needs to have access to a complete listing of current fixed assets, such as a composite report of the physical inventory results.

Authorized and dated documentation (such as a receiving report) that indicates to the Council when assets have been received at the residence also is needed. This will ensure that payments are made for only those assets actually received.

Second, a majority of the fixed assets are not recorded on the fixed asset record management system (FARMS). Of 136 items reviewed, a total of 111 assets had not been recorded. The Council received 41 of the items as gifts in-kind. None of these donated items were assigned a value or were recorded on FARMS. Of the 70 unrecorded items which had been purchased, 43 were over \$300 and 27 were under \$300. The Materials Management Division of the Department of Administration requires that all items with a cost of \$300 or more and a useful life expectancy exceeding two years should be properly identified and included on a fixed asset listing. In addition, lower cost assets which are subject to pilferage or misuse (sensitive property) and appreciating assets are to be identified and included on the fixed asset listing or a secondary inventory system. The coordinator cannot effectively control fixed assets from an incomplete list of assets.

Overall accountability and control will be greatly improved if responsibilities are defined. The system must allow current information to be generated and distributed to those responsible for effective physical control over the assets.



## GOVERNOR'S RESIDENCE COUNCIL

### RECOMMENDATIONS

- The Governor's Residence Council should coordinate the responsibility for the fixed assets with the Governor's Office and with the Department of Administration's Plant Management Division. This includes providing written documentation that all goods were received and reporting the results of each physical inventory to the Council.
- All fixed assets and their values should be entered onto a fixed asset record which can be used by the coordinator for accountability and control purposes.

#### 2. Internal controls over cash donations need to be improved.

The Governor's Residence Council receives donations on behalf of the Governor's residence for the general renovation and refurbishing of the home. The Council received donations of \$110,117 and \$153,554 in fiscal years 1986 and 1987, respectively.

Cash donations may be received by staff at the Governor's residence or by the Council staff. When donations are received at the residence, they are logged in and sent to the Council. When the Council staff receives donations, either initially or from the residence, the receipts are endorsed and recorded in the Council ledgers. The receipts are then sent to the Department of Administration for deposit.

Current procedures have three weaknesses: (1) restrictive endorsements are not placed on the checks received at the residence until the Council endorses them, (2) cash receipts are not being deposited in a timely manner, and (3) receipts received at the residence are not being reconciled to the overall receipts of the Council. The residence initiated a mail listing in May 1985. From May 30, 1985 to March 31, 1988, 52 donations were originally sent to the residence where they were logged in and sent to the Council without a restrictive endorsement on them. Restrictive endorsements are essential in safeguarding the donations and should be done immediately upon receipt at the residence.

From July 1, 1983 to March 31, 1988, 20 donations, including 15 ranging from \$1,000 - \$25,000 were tested. Minn. Stat. Section 16A.275 states, "Except as otherwise provided by law, an agency shall deposit receipts totalling \$250 or more with the treasurer daily." In the case of the Council, receipts are required to be routed through the various channels of the residence, the Council, and the Department of Administration. This caused some delay in the depositing, ranging from 2 to 13 working days. Failure to promptly deposit receipts causes an increased possibility of loss, creates additional work in recording and safeguarding money, and reduces the interest income that could be earned on the receipts.

## GOVERNOR'S RESIDENCE COUNCIL

The receipt listing prepared by the residence staff is maintained but never compared to any other document to verify if those receipts were actually deposited. The listing should be reconciled to the SWA receipt reports. The Council coordinator is in the best position to do such a reconciliation. This control establishes accountability for receipts and subsequent deposits.

### RECOMMENDATIONS

- Donations should be restrictively endorsed immediately upon receipt.
- The Governor's Residence Council should deposit receipts daily whenever they exceed \$250 in accordance with Minn. Stat. Section 16A.275.
- The Governor's Residence Council should reconcile the mail listing of receipts to the statewide accounting (SWA) system summary.

3. The Governor's Residence Council is not properly managing compensatory time earned and taken by its employee.

Compensatory time earned results from an employee working hours in addition to their normal required hours. Currently, the Governor's Residence Council part-time coordinator performs various administrative functions which occur during unscheduled hours. Therefore, she exceeds her normal 20 hour work week and earns overtime compensation. The employee has an apparent understanding with the Council regarding overtime worked and its subsequent use, but no formal policy has been established and no written requests are submitted. The overtime hours are not posted to the employee's biweekly time report, and are thus not included on the state's central payroll system. When compensatory time is subsequently used by the employee, the hours are entered into the system as regular hours worked.

The employee is represented by the American Federation of State, County, and Municipal Employees, (AFSCME), Council 6. The collective bargaining agreement between the state and Council 6 allows the employees to earn overtime and to place such overtime hours into a compensatory bank or have the hours liquidated in cash. Department of Finance Policy and Procedure 07:04:22 requires that all overtime hours worked be posted to the employee's biweekly time report. Failure to post all overtime hours worked to the state's central payroll system increases the possibility of errors or misunderstandings regarding the correct balance of overtime hours.

The purpose of a formal policy is to establish with the Council an understanding of the conditions under which overtime will be worked and paid. The policy also needs to identify the procedures necessary to ensure that overtime worked has been accounted for and entered into the central payroll system and that compensatory time off has been systematically used.

## GOVERNOR'S RESIDENCE COUNCIL

### RECOMMENDATION

- The Governor's Residence Council should develop or adopt an overtime policy to establish the process under which compensatory time will be earned and used.
- Compensatory time should be posted to the biweekly time reports and maintained on the central payroll system.



GOVERNOR'S RESIDENCE COUNCIL

1006 Summit Avenue, Saint Paul, Minnesota 55105, 612-296-2961

August 15, 1988

James R. Nobles  
Legislative Auditor  
Veterans Service Building  
St. Paul, Minnesota 55155

Dear Mr. Nobles:

The Governor's Residence Council, a small agency with limited staff (one 50% FTE coordinator) and supported entirely by private contributions and grants, has, of necessity, developed operating procedures and policies based on close co-operation with various divisions of the Department of Administration and the staff of the Governor's residence itself. Although these procedures have worked effectively over the years, the findings of the financial and compliance audit completed in April, 1988, suggest three areas where procedures could be improved.

The Council reviewed the preliminary findings of the audit at its May 11, 1988 meeting and authorized its staff to develop procedures which would address the issues raised by the audit.

Council management is aware of the limitations placed on the division of financial-related duties in a single-staff office; however, the Council's active involvement in approving every purchase before expenditure, reviewing financial reports detailing expenditures and income, and developing and approving budgets does serve to offset these limitations as does the active involvement of the Fiscal Services division of the Department of Administration in the processing of each transaction. Since neither the work load nor the financial resources available indicate that the staff will significantly expand in the future, a total segregation of financial-related duties within the Council office will not be possible.

Each of the three audit findings is discussed in the attached response. The recommendations of the audit have been useful in the process of developing or improving procedures in these areas.

I would also like to express my appreciation of the audit staff's sensitivity to the other demands on my time during the actual audit and willingness to accomodate my schedule.

Sincerely,

Diann Anders  
Coordinator

August 15, 1988

**Governor's Residence Council  
Response to the Findings and Recommendations  
of the Financial and Compliance Audit**

**I. Fixed Asset Records and Controls**

In co-operation with representatives of the Department of Administration (Fiscal Services, Materials Management/Fixed Assets, and Plant Management) and the Residence staff, the following procedures for management of the Council's fixed assets were developed. (See attached document.)

An initial physical inventory is scheduled to be completed by early fall, after which it will take at least several weeks to reconcile the results with the existing inventory kept both in the Council office and at the Residence, fill out the appropriate FARMS forms, and enter them into the system. The projected completion date is December 15, 1988.

The procedures of fixed asset inventory address all areas of concern outlined in the audit findings. When an item is received, Residence staff will continue to record it in the inventory log and attached the asset number when feasible. The log is written, dated documentation of receipt and as such will be forwarded to the Council office periodically. Council staff is responsible for compiling and sending FARMS addition/reconciliation forms to Plant Management for entry into the FARMS system. In turn, Plant Management will send FARMS reports to Council staff for review.

**II. Cash Donations**

The Council has purchased an additional restrictive endorsement stamp so that checks received at the Residence can be endorsed immediately. The Council will forward all cash donations to Fiscal Services for deposit the same working day as they are received in the Council office. This will mean, however, that donations will be deposited at times before they are formally accepted by the Council. If the Council, for whatever reason, decides not to accept a gift, the donor will have to be reimbursed.

Residence staff will forward a copy of the cash donation mail log kept at the residence to the Council office to be reconciled along with the Council's gifts log to the SWA receipts summary, which will be forwarded from Fiscal Services to the Council office.

**III. Compensatory Time**

Council staff does not normally work more than forty hours during a two week pay period; the overtime worked during the audit was the result of failing to schedule enough increased hours to staff a major event for the Council. These over-time hours were reported to Personnel Services and duly applied for and taken as compensatory time before the end of the last fiscal year.

Governor's Residence Council  
Response  
August 15, 1988  
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The Council has budgeted adequate increased staff hours for the current year so that staff should not be required to work over-time.

If staff does work more hours than required in a pay period, the over-time hours will be reported on the employee's bi-weekly time report. Staff will work over-time only with the knowledge and approval of the Council Chair or Vice-Chair.

5/12/88

Procedures for Fixed Asset Inventory  
Governor's Residence Council

Under Minnesota Statute 16.872, the Governor's Residence Council is charged with maintaining a complete inventory of all gifts and articles received by the Council. In the past, this inventory has been maintained separately from the FARMS system. The procedures outlined below would bring the Council into compliance with state fixed asset guidelines by integrating the use of FARMS into Council procedures and would provide an internal check on the more detailed inventory currently kept by the Council in its office.

Although the Council has the final responsibility for maintaining the inventory, it must rely on other agencies for assistance due to its special nature. The following procedures assign responsibility for each task to the appropriate agency or staff person.

1. Assignment of a state asset number. (Residence staff)  
The asset number will be assigned either on the D.P.O. or the Requisition in the case of purchased items. In the case of donated items, the number will be assigned immediately after the Council moves acceptance of the gift.
2. Certification that the asset has been delivered (Residence Staff)  
to the Residence and attachment of the asset number to the item where feasible. When an item has been received (and tagged), Residence staff will notify the Council office.
3. Completion of FARMS addition forms. (Coordinator, GRC)  
When possible, this can be done in conjunction with the completion of the Council's catalog card, which details the particulars of the item. When completed, forms will be forwarded to Plant Management.
4. Entry of additions into FARMS. (Plant Management)
5. Review of weekly update/monthly activity FARMS reports. (Coordinator, GRC)  
These reports will be forwarded to the Council office for review. Any necessary corrections will be filed.
6. Resolution of SWA/FARMS Reconciliation reports. (Coordinator, GRC)
7. Inventory  
The Coordinator of the GRC is responsible for coordinating actual inventory procedures with the Residence staff and Plant management. In order to minimize disruption at the Residence, if possible inventory of GRC assets should be co-ordinated with inventory of other fixed assets at the Residence.

5/12/88 . .

Procedures for Fixed Asset Inventory  
Governor's Residence Council

Additional Proposals

1. Valuation: All purchased items will be entered into the FARMS system at their full cost, not at any discounted price actually paid by the Council. All donated items will be assigned an estimated value solely for the purpose of the FARMS system and not as a reflection of their real value.
2. Sensitivity: Because all the assets donated to or purchased by the Council are, in effect, gifts to the State, they should be seen as sensitive assets. In addition, many of these assets appreciate rather than depreciate in value and should not be subjected to normal depreciation schedules. The Council . . . work with Fixed Assets in ensure Council assets are handled in an appropriate manner in the FARMS system.
3. Initial Inventory: When procedures clearly defining responsibility for the Council's interaction with Fixed Assets have been adopted, an initial inventory of assets donated to or purchased with funds donated to the Council should be made. The list compiled by this inventory . . . be reconciled with the list currently on FARMS and the appropriate additions made.
4. Location of assets: The Council would like to be as general as possible in assigning a location to assets in the FARMS system, since they are frequently moved within the Residence. Therefore, assets in the system will be defined as being located in a particular building (i.e. Residence, Griggs House, carriage house). The Residence staff will continue logging in any changes in location and reporting to the Council office.