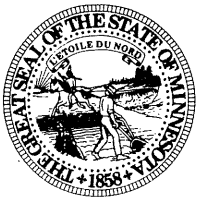


**OFFICE OF THE LIEUTENANT GOVERNOR
FINANCIAL AND COMPLIANCE AUDIT
FOR THE SIX MONTHS ENDING JUNE 30, 1987
AND THE YEAR ENDED JUNE 30, 1988**

MAY 1989



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

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

JAMES R. NOBLES, LEGISLATIVE AUDITOR

Senator John E. Brandl, Chairman
Legislative Audit Commission

Members of the Legislative Audit Commission

and

The Honorable Marlene Johnson
Lieutenant Governor

Audit Scope

We have completed a financial and compliance audit of the Office of the Lieutenant Governor for the six months ending June 30, 1987 and the year ended June 30, 1988. Section I provides a brief description of the Lieutenant 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 Government Auditing Standards, and accordingly, included such audit procedures as we considered necessary in the circumstances.

Audit Schedule

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.

Internal Accounting Control Systems

One objective of this audit was to study and evaluate major internal accounting control systems, including receipts, payroll, and other disbursements, at the Office of the Lieutenant Governor in effect as of January 31, 1989.

The management of the Office of the Lieutenant 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.

Finance-Related Legal Provisions

Another objective of this audit was to verify that financial transactions were made in accordance with significant finance-related laws. The powers and duties of the Lieutenant Governor are prescribed by the State Constitution, Article V. Minn. Stat. Chapter 4 gives the Lieutenant Governor additional guidance.

The Lieutenant Governor's Office is subject to certain general legal provisions which affect the financial management of most state agencies. Minn. Stat. Section 16A.15 requires that funds be encumbered before an obligation is incurred. Minn. Stat. Section 16B.07 requires that competitive bids be obtained on contracts for purchase or rental of equipment. Minn. Stat. Sections 43A.07-.08 provide the authority for classification of employees and salary changes as negotiated with the various bargaining units, and as covered under the Governor's Office Compensation Plan. Minn. Stat. Section 10.31 requires money to be spent for the purpose for which it was appropriated. Minn. Laws 1985, First Special Session, Chapter 13, Section 10 establishes the operating appropriation for fiscal years 1986 and 1987. Minn. Laws 1987, Chapter 404, Section 9 establishes the fiscal year 1988 appropriation.

The management of the Office of the Lieutenant Governor is 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 Lieutenant Governor. The purpose of our testing of transactions was to obtain reasonable assurance that the Office of the Lieutenant Governor had, in all material respects, administered its programs in compliance with applicable laws and regulations.

Conclusions


In our opinion, the Office of the Lieutenant Governor's system of internal accounting control in effect on January 31, 1989, taken as a whole, was sufficient to provide management with reasonable, but not absolute

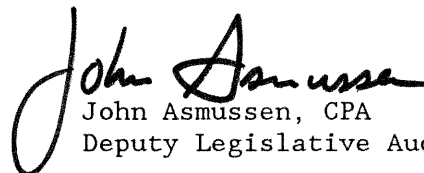
Senator John E. Brandl, Chairman
Members of the Legislative Audit Commission
The Honorable Marlene Johnson
Lieutenant Governor
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assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly.

The results of our testing of transactions and records indicate that the Office of the Lieutenant Governor complied with the aforementioned finance-related legal provisions, except for the instance of noncompliance discussed in Section II. Nothing came to our attention in connection with our audit that caused us to believe that the Office of the Lieutenant Governor was not in compliance with other applicable legal requirements.

We will review the Office of the Lieutenant Governor's progress on implementing the recommendation before our next audit. We would like to thank the Lieutenant Governor's staff for their cooperation during this audit.


James R. Nobles
Legislative Auditor


John Asmussen, CPA
Deputy Legislative Auditor

END OF FIELDWORK: April 14, 1989

REPORT SIGNED ON: May 24, 1989

OFFICE OF THE LIEUTENANT GOVERNOR

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AUDIT PARTICIPATION

The following members of the Office of the Legislative Auditor participated in this audit:

John Asmussen, CPA	Deputy Legislative Auditor
Warren Bartz, CPA	Audit Manager
Carl Otto, CPA	Auditor-in-Charge

EXIT CONFERENCE

The findings and recommendations in this report were discussed with the following staff of the Office of the Lieutenant Governor on April 24, 1989:

Shirley Bonine, Administrative Assistant
John Pemble, Accounting Coordinator

OFFICE OF THE LIEUTENANT GOVERNOR

I. INTRODUCTION

The Office of the Lieutenant Governor was created by Article V of the State Constitution and operates under Minn. Stat. Chapter 4, Section 4. The Governor and the Lieutenant Governor are elected jointly for a four year term by a single vote applying to both officers. The Lieutenant Governor's main duty is to assist and represent the Governor, but the Governor has delegated several other duties to the Lieutenant Governor. These include acting as chairman of the Governor's Appointments Advisory Commission and the Capitol Area Architectural Planning Board and serving as a member of the Executive Council.

Accounting is coordinated by an employee of the Department of Administration. The main source of financing for the Lieutenant Governor's activities is an appropriation from the General Fund. Expenditures for the agency for the periods audited are summarized below.

Office of the Lieutenant Governor
Expenditures, Including Obligations
Period January 1, 1987 - June 30, 1988

	<u>January 1 - June 30, 1987</u>	<u>Year Ended June 30, 1988</u>
Personal services	\$120,542	\$244,729
Travel and subsistence	5,330	18,799
Supplies and equipment	4,666	8,321
Other administrative expenditures	<u>16,288</u>	<u>48,163</u>
TOTAL	<u>\$146,826</u>	<u>\$320,012</u>

Source: Statewide Accounting System Managers Financial Report as of September 5, 1987 and September 3, 1988.

OFFICE OF THE LIEUTENANT GOVERNOR

II. CURRENT FINDING AND RECOMMENDATION

1. Work under contract was begun prior to full execution and encumbrance.

Four contracts were started before approval by the commissioner of administration and before money was encumbered. The Department of Administration's Contract Management Division has established policy and procedure statement ADM-188 governing contracts for consultant, professional/technical, and purchased services. The Department of Finance has also established statewide accounting policy and procedure 06:04:05 for contractual services. These procedures state that no agency shall execute a state contract without receiving the prior approval of the commissioner of administration. Also, Minn. Stat. Section 16A.15, Subd. 3 states that an agency should not permit a contractor to start work, thereby creating an obligation on the part of the state, until the contract has been fully executed and funds have been encumbered.

Four contracts in effect during the audit period were started before receiving approval of the commissioner of administration and before funds were properly encumbered. The contracts ranged in value from \$6,750 to \$10,000. To ensure that sufficient money is available to pay contractual obligations, agencies must requisition and encumber funds before work is started on a contract.

RECOMMENDATION

- The Lieutenant Governor should comply with Department of Administration policy and procedure statement ADM-188 and Department of Finance procedure 06:04:05 by beginning work with contractors only after the contract has been fully executed and sufficient money encumbered.



MARLENE JOHNSON
LIEUTENANT GOVERNOR

STATE OF MINNESOTA
OFFICE OF THE LIEUTENANT GOVERNOR
ST. PAUL 55155

May 22, 1989

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

Dear Mr. Nobles:

Enclosed is the detailed response to the audit of the Office of the Lieutenant Governor for the six months ended June 30, 1987 and the year ended June 30, 1988.

Sincerely,

A handwritten signature in cursive script, appearing to read "Marlene Johnson".

MARLENE JOHNSON
Lieutenant Governor

MJ:sa

Enclosure

OFFICE OF THE LIEUTENANT GOVERNOR

RESPONSES TO CURRENT FINDINGS AND RECOMMENDATIONS
AUDIT PERIOD: JANUARY 1, 1987 THROUGH JUNE 30, 1988

Recommendation

The Lieutenant Governor should comply with Department of Administration policy and procedure statement ADM-188 and Department of Finance procedure 06:04:05 by beginning work with contractors only after the contract has been fully executed and sufficient money encumbered.

Response

It is unusual for the Lieutenant Governor's Office to enter into contract agreements. In FY 1988, six contracts were prepared. The contracts pertained to production and promotional work for conference events.

We recognize that four contracts were not signed prior to the date that work began. Scheduling was critical, and the contract agent did not allow adequate time to prepare contracts and coordinate other related activities. Procedures have been implemented to ensure that future contracts are fully executed before services are initiated.