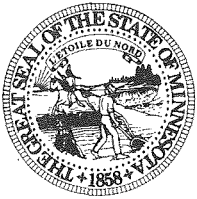


**OFFICE OF THE GOVERNOR  
FINANCIAL AND COMPLIANCE AUDIT  
FOR THE SIX MONTHS ENDING JUNE 30, 1987  
AND THE YEAR ENDED JUNE 30, 1988**

**JUNE 1989**





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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Senator John E. Brandl, 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 six months ending June 30, 1987, and the fiscal year ending June 30, 1988. 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 Government Auditing Standards, and accordingly, included such audit procedures as we considered necessary in the circumstances.

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; payroll, administrative disbursements, gifts, travel, and receipts, at the Governor's Office, in effect as of January 1, 1989.

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

Senator John E. Brandl, Chairman  
Members of the Legislative Audit Commission  
The Honorable Rudy Perpich  
Governor of Minnesota  
Page 2

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 Governor are prescribed by the State Constitution, Article V. Minn. Stat. Chapter 4 gives the Governor additional guidance.

The 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 9 established the operating appropriation for fiscal years 1986 and 1987. Minn. Laws 1987, Chapter 404, Section 8 established the fiscal year 1988 appropriation. The amounts appropriated for the personal expense account for fiscal years 1986 to 1988 were included in the general operating appropriations.

The management of the Office of the 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 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.

#### Conclusions

In our opinion, the Office of the Governor's system of internal accounting control in effect on January 1, 1989, 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.

Senator John E. Brandl, Chairman  
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The Honorable Rudy Perpich  
Governor of Minnesota  
Page 3

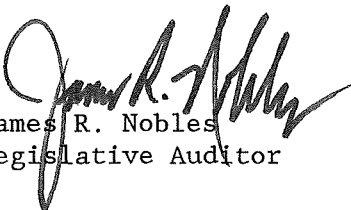
Section II, findings 1 and 5, represent several weaknesses in the Governor's system of internal controls. We believe the weaknesses subject the Governor's internal controls to an unnecessary financial risk and should be corrected. The current recommendations included in this report are presented to assist you in resolving the audit findings and in improving accounting procedures and controls. Progress on resolving these findings will be reviewed before the next audit.

The results of our testing of transactions and records indicate that the Office of the Governor complied with the aforementioned finance-related legal provisions, except for issues disclosed in Section II, findings 2, 3, and 4. Nothing came to our attention in connection with our audit that caused us to believe that the Governor's Office was not in compliance with other applicable legal requirements.

#### Status of Prior Audit Findings

We have reviewed the status of audit findings included in the audit report for fiscal years ended June 30, 1985 and 1986, and the six months ended December 31, 1986. The final report was issued May 8, 1987, and the follow-up report was issued September 21, 1988. The findings have all been resolved.

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

END OF FIELDWORK: March 15, 1989

REPORT SIGNED ON: June 20, 1989



OFFICE OF THE GOVERNOR

TABLE OF CONTENTS

	<u>Page</u>
I. INTRODUCTION	1
II. CURRENT FINDINGS AND RECOMMENDATIONS	2
AGENCY RESPONSE	6

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
Ken Vandermeer, CPA	Auditor-in-Charge
Rhonda Regnier	Staff Auditor
Lois McGuire	Staff Auditor

EXIT CONFERENCE

The findings and recommendations in this report were discussed with the following on May 17, 1989:

Office of the Governor:

Lynn Anderson	Chief of Staff
Dan Loritz	Deputy Chief of Staff
John Pemble	Accounting Coordinator

Office of the Attorney General:

John R. Tunheim	Chief Deputy Attorney General
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## 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, proposals of biennial budgets, appointments, proposal and review of legislation, and preparation of comprehensive long-range plans for state growth.

Most activities of the Governor's Office are financed primarily through General Fund appropriations. To achieve continuity between changes in governors, the accounting coordinator is an employee of the Department of Administration but paid from the Governor's appropriations. The summary below shows cash basis expenditures for normal operations during the second half of 1987, and fiscal year 1988:

Office of the Governor <u>Expenditures, Including Obligations</u>		
	Six Months Ended <u>June 30, 1987</u>	Year Ended <u>June 30, 1988</u>
<u>General Fund</u>		
Personal Services	\$ 783,500	\$1,559,251
Travel & Subsistence	47,685	129,742
Supplies & Equipment	96,543	342,911
Other Administrative Expenditures	<u>203,534</u>	<u>586,181</u>
TOTAL	<u>\$1,131,262</u>	<u>\$2,618,085</u>

Source: Statewide Accounting System Department Disbursement Summary  
as of June 30, 1987 and 1988.

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, the First Lady, and some staff members. In fiscal years 1987 and 1988, donations were not solicited. However, approximately \$7,720 was spent from prior year donations. In fiscal year 1989, donations were solicited again to continue promoting business development in Minnesota.

## OFFICE OF THE GOVERNOR

### II. CURRENT FINDINGS AND RECOMMENDATIONS

#### 1. Payment documentation and review require improvement.

Several weaknesses in processing travel, business development, and personal expense payments under current guidelines exist. Department of Finance operating policy and procedure 06:05:15 regulates employee travel expenses. Policy 06:05:15 governs business development account payments reimbursed through employee expense forms. The Governor also has a special expense policy which regulates travel expenses unique to the Governor's office.

We identified the following weaknesses in documentation:

- Travel at state expense by the First Lady needs clearer justification. Travel at state expense by the First Lady is valid only when the state receives a benefit. We recognize that certain events, such as dinners, dances, or awards ceremonies, require the First Lady's presence. However, some events were not explained adequately to justify the First Lady's presence, and were not documented in advance as required by policy. One option would be to complete the "Authorization for Travel" form used by other executive branch agencies. Ideally, the form would be completed in advance.
- Business development account payment purposes were also sometimes unclear. Documentation did not provide an explanation of what line of Minnesota business was going to benefit. This detail is needed to ensure payment of funds according to donor restrictions and the executive order establishing the business development account.
- The public purpose of some personal expense account payments was not established. Invoices contained a purpose that was lacking in detail or was absent. These payments related to gifts, farewell banquets, catered meals or luncheons, autographed pictures, and film development. Without a detailed purpose, the validity of payments is unsubstantiated. For example, gifts for personal reasons are ineligible; meals for staff functions are ineligible; and pictures for personal gain (campaigning) are ineligible.

We identified the following weaknesses in payment review:

- The Governor's staff did not adequately review employee travel expense reports. Policy 06:05:15 requires a review of expense reports for compliance with policies and agency plans. We noted the following deviations from policy. (1) Telephone calls included in hotel billings were reimbursed when documentation was inadequate to determine if calls were business or personal. The amount of personal telephone calls eligible for reimbursement for employees in travel status is limited. Business telephone calls

## OFFICE OF THE GOVERNOR

are not limited. (2) Meals paid as part of airfare were reimbursed on employee expense reports. This resulted in meals being reimbursed twice. (3) Expense reports were signed on seven occasions by someone other than the person requesting reimbursement. Individuals incurring expenses need to sign the reports to ensure that all expenses claimed are accurate. Individuals signing for someone else are liable for any incorrect information submitted. (4) Undocumented expenses such as hotel bills, telephone calls, car rental and gasoline expenses were reimbursed.

Policy 06:05:15 requires documentation to support expenses claimed on the employee expense report except for meals and taxi services. If the documentation is misplaced, an affidavit may be obtained from the employee.

- An independent person does not routinely review and approve invoices for the personal expense account. The chief of staff previously reviewed and approved invoices for payment before having checks signed. This process stopped and only the check signer reviews documents currently. The individual probably would not question payments to superiors and is therefore not independent. Without an independent review and approval process, ineligible payments may occur.

### RECOMMENDATIONS

- The purpose for each trip by the First Lady should be clearly stated and documented in advance.
- Business development account payments should indicate what Minnesota business could receive a benefit.
- Payment documentation for the personal expense account should clearly identify the public purpose.
- The Governor's staff should review employee expense reports to ensure the expenses claimed are properly supported and authorized.
- Invoices for the personal expense account should be reviewed and approved by an individual independent of the check signing process.

### 2. The staff needs to comply with IRS regulations on vehicle personal use.

The Governor's office leases two vehicles, one for the Governor and one for the chief of staff. The current and former chiefs of staff did not report personal use of state vehicles in 1987 and 1988. The current chief of staff and the Governor use their vehicles to commute from home to work, as did the former chief of staff. Department of Finance operating policy

## OFFICE OF THE GOVERNOR

and procedure 07:04:32 requires that employees report any personal use, including daily commuting, to the Department of Employee Relations. This policy is based on IRS (Internal Revenue Service) regulations that require the value of personal use from employer-provided vehicles be included as part of the employee's wages.

The Governor reported personal use in 1987 and 1988. The current and former chiefs of staff did not report personal use during these years.

### RECOMMENDATION

- The personal use of state-provided vehicles should be reported to the Department of Employee Relations for 1987 through 1988, and on an annual basis thereafter.

### 3. State telephone service in the residence was used for personal benefit.

From January 1987 through June 1988, personal long distance telephone calls totaling \$1,354 were made from state telephones located at the Governor's residence. The Governor also has a personal telephone line at the residence. It was not used, however, for all personal calls even though appropriate persons have been advised the state telephone is not for personal use. The Governor repaid the state for the long distance calls. However, individuals, including the Governor and his family, are not allowed to make long distance personal calls on state telephones even if they are reimbursed. When state equipment or services are used for personal reasons, an employee receives a benefit that is not available to the general public. The state's long distance rates are considerably lower than average. State and federal taxes may be avoided when individuals repay the state for personal calls.

### RECOMMENDATION

- The Governor, family members, and employees should not use the state telephones at the Governor's residence for personal long distance calls.

### 4. The Governor's office needs to comply with contract guidelines.

Professional and technical service contract obligations of \$31,705 occurred before encumbering funds with the Department of Finance. Minn. Stat. Section 16A.15, Subd. 3 requires agencies to encumber funds before obligation by the state. If an obligation occurs before funds are encumbered, the Department of Finance requires the agency to document justification in a letter to the department. Department of Finance operating policy and procedure 06:04:18 refers to this justification as a "Chapter 16A letter."

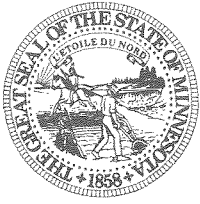
## OFFICE OF THE GOVERNOR

Of seven contracts in fiscal years 1987-1988, four had Chapter 16A letters, two should have had Chapter 16A letters, and one was properly executed. This indicates an overuse of the Chapter 16A letters and noncompliance with policy 06:04:18. We recognize that in certain situations obligations can occur before encumbering funds. However, the use of Chapter 16A letters is only for unique situations and should not become routine. After-the-fact authorization creates a risk that work starts without management's approval or without adequate funding.

Agencies are to evaluate vendor performance within 30 days of the contract end date as required in the Department of Administration's Policy and Procedure Statement ADM-188. Evaluations were late for two vendors. The five remaining evaluations did not have dates to show timely evaluations. Without timely evaluations, contracts may occur with vendors who previously did not perform well.

### RECOMMENDATIONS

- Contracts and leases should be authorized and encumbered before any obligations have been incurred. Exceptions should be documented in a Chapter 16A letter, but should occur on an infrequent basis.
- Evaluations should be completed and dated within 30 days after the contract expiration date.



RUDY PERPICH  
GOVERNOR

# STATE OF MINNESOTA

OFFICE OF THE GOVERNOR

ST. PAUL 55155

June 19, 1989

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

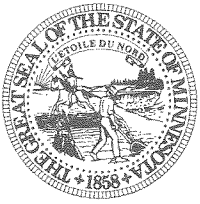
Dear Mr. Nobles:

Attached is the Governor's Office response to the findings and recommendations of your audit for the period January 1, 1987 through June 30, 1988. We appreciate your willingness to include our comments on your audit in your final report.

Sincerely,

A handwritten signature in cursive script that reads "Lynn Anderson".

LYNN ANDERSON  
Chief of Staff



RUDY PERPICH  
GOVERNOR

## STATE OF MINNESOTA

OFFICE OF THE GOVERNOR

ST. PAUL 55155

June 19, 1989

TO: Legislative Auditor

FROM: Lynn Anderson  
Chief of Staff

SUBJECT: Response to Audit Findings for the Period  
January 1, 1987 to June 30, 1988

AREA 1: Payment Documentation and Review Require  
Improvement

Procedures regarding "Authorization for Travel" forms, "Special Expense" forms and review and approval of employee expense records have been improved. In addition, an independent review process has been established for the personal expense account. The Deputy Chief of Staff will have final review and approval on all travel, employee expense and special expense payments. In all cases, supporting documentation will be attached to all requests for reimbursement.

While some areas of concern were noted with internal controls, a subsequent review of the Department of Finance records indicate that several items of support documentation were filed with the final finance report and not held in the office files. Duplicate records will be kept in the future.

AREA 2: The Staff Needs to Comply with IRS Regulations on  
Vehicle Personal Use

Past practice has allowed a leased vehicle for the Governor's Chief of Staff. The current Chief of Staff did not have any personal use of the assigned state vehicle during the period of this audit. The current Chief of Staff used her personal car until a state vehicle was leased in June, 1988. She did not begin any personal use of the state vehicle until August, 1988. The Governor's Office will work with the Department of Employee Relations and the Department of Finance to make whatever adjustments are needed for the former Chief of Staff.

AREA 3: State Telephone Service in the Governor's  
Residence was used for Personal Benefits

The Governor's Residence serves both the State's Ceremonial House and the Governor's personal residence. While the Governor is careful about which phones to use for non-state business calls, if calls are made from such phones reimbursement is made immediately.

AREA 4: The Governor's Office Needs to Comply with  
Contract Guidelines

Procedures have been tightened to ensure proper management authorizations of all contracts and evaluation of all vendors.