

Office of the Governor

Financial Audit

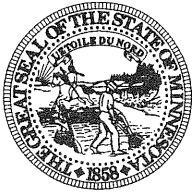
For the Two Calendar Years Ended December 31, 1996

April 1997

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**Financial Audit Division
Office of the Legislative Auditor
State of Minnesota**

97-18



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

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JAMES R. NOBLES, LEGISLATIVE AUDITOR

Members of the Legislative Audit Commission

The Honorable Arne Carlson
Governor of Minnesota

We have audited the Office of the Governor for the period January 1, 1995, through December 31, 1996, as further explained in Chapter 1. Our audit scope included payroll, communications, rent, membership dues, travel, materials and supplies, personal expense accounts, and Governor's residence user reimbursements. The Summary on the next page highlights the audit objectives and conclusions. We discuss these issues more fully in the individual chapters of this report.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we obtain an understanding of management controls relevant to the audit. The standards require that we design the audit to provide reasonable assurance that the Office of the Governor complied with provisions of laws, regulations, contracts, and grants that are significant to the audit. Management of the department is responsible for establishing and maintaining the internal control structure and for compliance with applicable laws and regulations.

This report is intended for the information of the Legislative Audit Commission and the management of the Office of the Governor. This restriction is not intended to limit the distribution of this report, which was released as a public document on April 11, 1997.

We thank the Office of the Governor staff for their cooperation during this audit.

A handwritten signature in black ink, appearing to read "James R. Nobles".

James R. Nobles
Legislative Auditor

A handwritten signature in black ink, appearing to read "John Asmussen".

John Asmussen, CPA
Deputy Legislative Auditor

End of Fieldwork: March 12, 1997

Report Signed On: April 8, 1997

SUMMARY

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Office of the Governor

Financial Audit

For the Two Calendar Years Ended December 31, 1996

Public Release Date: April 11, 1997

No. 97-18

Agency Background

Article V of the State Constitution establishes the Office of the Governor as part of the executive branch of state government. The office operates under *Minn. Stat.* Chapter 4. The Governor and Lieutenant Governor are elected jointly for a four-year term, which begins the first Monday in January following the election. Governor Arne Carlson and Lieutenant Governor Joanne Benson were elected on November 8, 1994. This is the second term for Governor Carlson. The Office of the Governor received General Fund appropriations of approximately \$3.5 million each year for fiscal years 1996 and 1997.

Audit Areas and Conclusions

Our audit scope covered the time period from January 1, 1995, through December 31, 1996, and included a review of payroll, rent, membership fees, supplies and materials, communications, travel-related expenses, and reimbursements for use of the Governor's residence. For the transactions tested, the Office of the Governor accurately authorized, paid, accounted for, recorded, and retained proper documentation. For the transactions tested, a public purpose was documented for travel-related expenditures and the amounts seemed reasonable. In addition, the Office of the Governor accurately billed and deposited reimbursements for the use of the Governor's residence.

During our audit, some news organizations requested from the Governor's Office copies of all cellular telephone bills, including the telephone numbers of the calls placed. The Governor's Office refused to release the telephone numbers, citing data privacy concerns. This prompted the introduction of legislation that would make the cellular telephone records public data, similar to long-distance telephone records. As of the date of our audit report, the proposed legislation has not been enacted into law. Because of the attention on the office's cellular telephone bills, we reviewed the office's policy on use of cellular telephones and the process used to monitor cellular and long-distance telephone bills. We found that the office has a policy that prohibits personal use of long-distance and cellular telephone services. The Director of Office Operations told us that she closely monitors telephone bills and requires employees to certify that these billings pertain to state business. Other than a few reimbursements for personal use, we found no evidence that cellular telephones were being misused. We could not, however, determine whether the telephone calls did, in fact, serve a public purpose. Such a determination would require telephone users to document the purpose of and parties participating in each call. That amount of documentation would be extremely time consuming and onerous for the telephone users to create and for auditors to independently verify.

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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
David Poliseno, CPA	Auditor-In-Charge
Dale Ogren, CPA	Auditor
Susan O'Connell	Auditor

Exit Conference

We noted matters involving the internal control structure and its operation that we reported to the management of the Office of the Governor at the exit conference held on April 4, 1997. The following staff attended the meeting:

Morrie Anderson	Chief of Staff
Rice Davis	Director of Operations
John Pemble	Accounting Director

Office of the Governor

Chapter 1. Introduction

Article V of the State Constitution establishes the Office of the Governor as part of the executive branch of state government. The office operates under *Minn. Stat.* Chapter 4. The Governor and Lieutenant Governor are elected jointly for a four-year term that begins the first Monday in January following the election. Under the current administration, the Governor and Lieutenant Governor share a suite of offices and support staff. As chief executive, the Governor is responsible for the general direction and supervision of the affairs of the state. Specifically, he is responsible for the administration of state government, development of legislative proposals, appointments, review of legislation, and preparations of comprehensive long-range plans for state growth. The Lieutenant Governor's chief duty is to assist the Governor in carrying out the functions of the executive branch. The Governor has also delegated several other duties to the Lieutenant Governor.

Governor Arne Carlson and Lieutenant Governor Joanne Benson were elected on November 8, 1994. This is the second term for Governor Carlson. In his first term, Joanell Dyrstad was the Lieutenant Governor. The Office of the Governor funds its activities through General Fund appropriations. The office's appropriation was \$3,507,000 for fiscal year 1996 and \$3,504,000 for fiscal year 1997. The office also receives reimbursements to the Governor's Residence User Fund, as shown in Chapter 3. In addition, the Governor's Office receives assistance from personnel of other state agencies in some situations. *Laws of Minnesota for 1995*, Chapter 254, Article 1, Section 3, requires the Governor to report use of other agencies' staff to the Commissioner of Finance and the Legislature. We did not audit these reports.

Table 1-1 includes expenditures for the Governor's Office for fiscal year 1996.

Table 1-1
Office of the Governor
Expenditures Summarized by Type

<u>Expenditures</u>	<u>Fiscal Year</u> <u>1996</u>
Payroll	\$2,419,102
Rent	279,170
Membership Fees	159,646
Supplies and Materials	155,421
Communications	113,597
Travel	98,183
Other Expenditures	<u>145,735</u>
Total Expenditures	<u>\$3,370,854</u>

Note: Includes financial activity for both the Governor and Lieutenant Governor.

Source: Expenditures recorded on the Minnesota Accounting and Procurement System (MAPS) for fiscal year 1996.

Chapter 2. Payroll and Travel Expenditures

Chapter Conclusions

The Office of the Governor accurately authorized, paid, accounted for, recorded, and retained documentation for payroll and employee business expenditures for the transactions tested. The office paid salaries in accordance with the provisions of the Governor's compensation plan. The travel expenditures, for items tested, documented a public purpose and seemed reasonable.

Payroll

The Office of the Governor has approximately 53 full-time employees. The office has four separate locations with about 40 employees at the Capitol, three employees at the Department of Administration, seven employees at the Governor's residence, and three employees in Washington, D.C. Minnesota Statutes authorize a separate compensation plan for these employees. The plan allows for three categories of positions: support, professional, and managerial. Each position category has individual salary ranges. Employees covered by the plan serve in unclassified positions. To achieve continuity between changes in governors, the office's accounting director is a classified employee of the Department of Administration, but is paid from the Governor's appropriation.

For fiscal year 1996, the office disbursed \$2.4 million in payroll expenditures. Other employees worked for the Office of the Governor, but were paid by other agencies. The office reported these expenditures to the Legislature annually, as required by *Minnesota Laws of 1995*, Chapter 254, Article 1, Section 3. Table 2-1 shows the personnel costs paid by other state agencies to support the operations of the Governor's Office. Additionally, the Department of Public Safety provided security for the Governor and the residence.

Table 2-1
Personnel Costs Paid by Other State Agencies
For the Fiscal Year Ended June 30, 1996

<u>State Department</u>	<u>Amount</u>
Children, Families, and Learning	\$75,974
Administration (Plant Management)	34,141
Minnesota Planning	28,631
Employee Relations	6,265
Administration (Office of Technology)	<u>3,441</u>
Total Costs	<u>\$148,452</u>

Source: Office of the Governor's Report to the Commissioner of Finance for Personnel Costs Paid by Other State Agencies.

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Travel

The Governor, Lieutenant Governor, and their staff incurred travel-related expenses while conducting state business. Trips outside of the state were generally for conferences, meetings in Washington, D.C. on issues that affect Minnesota, and meetings to promote economic development in Minnesota. The office documented the purpose and approvals for out-of-state travel in advance of the trips. The office reimbursed travel costs such as transportation, meals, lodging, and other miscellaneous costs based on the Governor's Office Compensation Plan. The office directly paid for certain travel costs associated with some trips, such as commercial transportation. For trips outside of the state, the office generally used a local travel agency to book commercial flights. For air travel inside the state, the office used the Minnesota Department of Transportation's (MnDOT) airplane. Table 2-2 shows the travel costs paid by the Governor's Office for fiscal year 1996. In addition to these costs, the Governor and certain staff accompanied other state agencies on trips where the state agency deemed the Governor's presence essential. These trips generally involved economic development efforts or meetings to secure the state's bond rating. The state agency that requested the Governor's attendance paid the costs of the trip out of its own appropriation.

Table 2-2
Travel Expenditures
Fiscal Year Ended June 30, 1996

<u>Description</u>	<u>Amount</u>
Out-of-State Travel	\$33,407
In-State Travel	13,194
Travel Agency	25,997
Rental of MnDOT Plane	<u>25,585</u>
Total	<u>\$98,183</u>

Source: Minnesota Accounting and Procurement System (MAPS).

Audit Objectives and Methodology

We focused on the following objectives during our audit of payroll and employee business expenses:

- Did the Office of the Governor properly authorize, expend, account for, and support payroll and travel expenses?
- Did the office process employee pay increases in accordance with its compensation plan?
- Did the office pay the salaries of the Governor and Lieutenant Governor within the statutory limits?

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- Did the travel expenses document a public purpose and were the expenses reasonable?

The methodology used to evaluate these audit objectives included analytical reviews, tests of transaction details and balances, and tests of compliance. We reviewed the support for accounting data, substantiated account balances, and determined the validity of summary information. Tests of compliance were used to determine whether specific internal policies and procedures operated effectively and whether the office adhered to specific statutes. We reviewed employee timesheets to ensure the office paid employees for actual time worked. In addition, we completed an analysis of pay increases and verified that these increases were within the provisions of the Governor's compensation plan.

In our review of payroll and travel, we found that the Office of the Governor accurately authorized, paid, accounted for, and documented the expenditures. The office also granted pay increases within the provisions of the Governor's compensation plan. The travel expenses documented a public purpose and seemed reasonable for the transactions tested.

Chapter 3. Administrative Expenditures

Chapter Conclusions

The Office of the Governor, for transactions tested, accurately authorized, paid, accounted for, recorded, and retained documentation for communication, rent, membership fees, materials and supplies, and expenditures. We also reviewed the Governor's policy and procedures for use of long-distance and cellular telephone services. Other than the few reimbursements for personal use, we found no evidence that cellular telephones were being misused. We could not, however, determine whether the telephone calls did, in fact, serve a public purpose. Such a determination would have required the users to document the purpose of and parties to each call. That amount of documentation would be extremely time consuming and onerous for telephone users to create and for auditors to independently verify. The office accurately billed and deposited reimbursements for the use of the Governor's residence.

In addition to salaries and travel expenses, the office's administrative expenditures included payments for communications, rent, membership fees, and materials and supplies. We will discuss the different areas under separate subheadings of this chapter. Some of these expenses were reimbursed through the Governor's Residence User Fund.

We focused on the following objectives for all areas of administrative expenditures that we audited:

- Did the Office of the Governor properly authorize, expend, account for, and document administrative expenditures?
- Did the expenses document a public purpose and were the expenses reasonable?

The methodology used to evaluate these audit objectives included analytical reviews, tests of transaction details and balances, and tests of compliance. We reviewed the support for accounting data, substantiated account balances, and determined the validity of summary information. Tests of compliance determined whether specific internal policies and procedures operated effectively and whether the office adhered to specific statutes.

For administrative expenditures reviewed, we found that the Office of the Governor accurately authorized, paid, accounted for, and documented the expenditures. The administrative expenditures documented a public purpose and seemed reasonable. The

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subsection on communications and the Governor's Residence User Fund contain additional information and our objectives and conclusions in those areas.

Communications

Communication expenditures include items such as postage, mailings, and telephone service. During the year ended June 30, 1996, the Governor's Office spent about \$113,600 on communication activities. Table 3-1 shows the communication expenditures for fiscal year 1996 by activity. Network service includes telephone service, computer communications, satellite conferences, cellular telephone use, fax charges, and pager charges.

Table 3-1
Summary of Communication Expenditures
For the Fiscal Year Ended June 30, 1996

<u>Activity</u>	<u>Amount</u>
Local and Long-Distance Telephone Service	\$31,506
Cellular Telephone Use (Note 1)	16,971
Other Network Services	27,247
Postage, Mailing, and Shipping	37,293
Freight and Delivery	<u>580</u>
Total	<u>\$113,597</u>

Note 1: Governor's estimate of cellular telephone costs.

Source: Minnesota Accounting and Procurement System (MAPS).

We added a specific objective for the area of communications:

- Did the office properly monitor the use of long-distance and cellular telephone calls?

In 1993, the Legislature enacted laws that made long-distance telephone bills public data. It also passed *Minn. Stat.* Section 10.47, related to oversight of telephone services. These changes to the law in 1993 did not, however, explicitly address cellular telephones. Nevertheless, the Governor's Office enacted a policy that did address both long-distance and cellular telephone uses. The policy prohibits the personal use of both the office's long-distance and cellular telephone services. It requires users of cellular telephones to sign affidavits restricting use to business purposes only. The Director of Operations told us that each month she reviewed the long-distance and cellular telephone bills with the staff and had them initial their calls signifying that the calls were for business purposes. One employee used an office-owned cellular telephone for personal use and reimbursed the office for this use totaling \$170 as of January 9, 1997.

Other than this and a few other reimbursements for personal use, we found no evidence that cellular telephones were being misused. We could not, however, determine whether the telephone calls did, in fact, serve a public purpose. Such a determination would have

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required the users to document the purpose and parties of each call. That amount of documentation would be extremely time consuming and onerous for users to create and for auditors to independently verify.

During our audit, some news organizations requested from the Governor's Office copies of all cellular telephone bills, including the telephone numbers of the calls placed. The office refused to release the telephone numbers, citing data privacy concerns. That prompted the introduction of legislation to make the cellular telephone records public data similar to long-distance telephone records. As of the date of our audit report, the proposed legislation has not been enacted into law.

Rent

The Governor's Office incurred rental costs for such activities as office space and equipment. The office also rented miscellaneous items primarily used for functions at the Governor's residence. The office rented space in the Capitol and in the Administration Building for its local operations. It also rented office space for its Washington, D.C. office. Table 3-2 shows the amount of rental expenditures incurred by the Governor's Office for fiscal year 1996.

Table 3-2
Summary of Rental Expenditures
For the Year Ended June 30, 1996

<u>Description</u>	<u>Amount</u>
Rent -- State Owned Space	\$214,368
Rent -- Washington, D.C. Office	32,241
Equipment Rental	13,361
Miscellaneous Rental	<u>19,200</u>
Total	<u>\$279,170</u>

Source: Minnesota Accounting and Procurement System (MAPS).

Membership Fees

The Office of the Governor paid \$159,646 for dues, fees, and departmental memberships during the year ended June 30, 1996. Table 3-3 shows the national memberships and the fees for fiscal year 1996.

Table 3-3
Summary of Membership Dues and Fees
For the Fiscal Year Ended June 30, 1996

<u>Membership Organization</u>	<u>Amount</u>
National Governors Association	\$97,000
Upper Mississippi River Basin Association	35,000
Council of Great Lakes Governors	20,000
Other	<u>7,646</u>
Total	<u>\$159,646</u>

Source: Minnesota Accounting and Procurement System (MAPS).

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These memberships are generally for the direct benefit of the state and not just the Governor because the organizations provide a forum for states to discuss issues relating to shared resources and shared problems in an effort to jointly resolve the issues. Therefore, the Legislature made appropriations to the Governor's Office for the National Governors Association and the Council of Great Lakes Governors. The office funds the third membership, Upper Mississippi River Basin Association, from its own appropriation.

Supplies, Materials, and Parts

The office spent \$155,400 for various supplies, materials, and parts during the year ended June 30, 1996. The office purchased various office supplies, generally from the Central Stores Division of the Department of Administration, to support office operations. It also purchased routine office supplies for the Washington, D.C. office and shipped the supplies to the office. The Governor's Office also purchased goods for the Governor's residence, such as supplies for cleaning and maintaining the residence. It purchased food and beverages for the Governor's family consumption and for events held at the residence. The Governor reimbursed the state for the food his family consumed based on a monthly formula. The office also purchased awards, pictures, and flowers for public recognition or gratitude through the Governor's special expense account.

Governor's Residence User Fund

The state of Minnesota maintains and operates a Governor's residence. Its use is defined in *Minn. Stat.* Section 16B.27, Subd. 1, as follows:

The governor's residence must be used for official ceremonial functions of the state, and to provide suitable living quarters for the governor of the state.

Department of Finance Operating Policy and Procedure No. 06:06:16 gives directions to account for the reimbursement of expenditures relating to events conducted at the Governor's residence. A residence manager is responsible for the planning and budgeting of all activities held at the residence. The manager oversees a full-time staff that is responsible for cleaning, preparing meals, and maintaining the residence. The Governor's Residence Council is responsible for soliciting funds for furnishings and the restoration of the residence. We did not examine the financial activities of the Governor's Residence Council as part of this audit. We conducted a separate audit of the council in 1994 for the fiscal years ended June 30, 1991, 1992, and 1993.

The Governor's Office collects reimbursements for events held at the Governor's residence in accordance with *Minn. Stat.* Section 16A.723. With input from the Governor and his family, the residence manager determines the events conducted at the residence. By reviewing the residence budget and purpose of the event, the manager decides whether the Governor's Office will fund a specific event or require the user to reimburse actual costs. The Department of Finance operating procedures require users to reimburse the Governor's Office for events that do not serve a state purpose. The Governor's Office collected reimbursements of approximately \$69,000 for events held during the audit period. The largest event was a

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reception for the King and Queen of Sweden in November 1996. The Department of Trade and Economic Development reimbursed the Governor's Office \$22,042 for that event in January 1997. Other events held at the residence during the audit period included two wedding receptions, nonpolitical fund raising events, various political meetings, and events to honor various dignitaries. We concluded that use of the residence complied with statutory authority, and the office accurately billed and deposited reimbursements for events.