
Governor's Residence Council

Financial-Related Audit

For the Period July 1, 1995, through December 31, 1998

July 1999

Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

99-35

SUMMARY

State of Minnesota
Office of the Legislative Auditor
1st Floor Centennial Building
658 Cedar Street • St. Paul, MN 55155
(651)296-1727 • FAX (651)296-4712
TDD Relay: 1-800-627-3529
email: auditor@state.mn.us
URL: <http://www.auditor.leg.state.mn.us>

Governor's Residence Council

Financial-Related Audit For the Period July 1, 1995, through December 31, 1998

Public Release Date: July 15, 1999

No. 99-35

Agency Background

The Governor's Residence Council was created in 1980 to develop and implement an overall restoration plan for the Governor's residence and surrounding grounds. The primary functions of the council are 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 and consists of 19 members. Current members include the director of the Minnesota Historical Society, the executive director of the Minnesota State Arts Board, as well as the first family and the residence donor family. Dr. Sam W. Grabarski is the elected chair of the council.

The Governor's residence is located at 1006 Summit Avenue in St. Paul and serves as the living quarters for the Governor. Governor Arne Carlson and First Lady Susan Carlson lived at the residence for the past two gubernatorial terms, which ended December 31, 1998.

Audit Scope and Conclusions

Our audit of the Governor's Residence Council focused on gift revenues, expenditures, and residence assets for the period July 1, 1995, to December 31, 1998.

We concluded that the council designed controls to provide assurance that gifts were accurately reported in the accounting records and in compliance with applicable legal provisions and management's authorization. However, a receipts log of council gifts was not maintained at the residence to control the timeliness and accuracy of deposits into the state treasury.

We found that the Governor's Residence Council designed and implemented internal controls to provide reasonable assurance that donated and purchased assets were adequately safeguarded. The council controls also provided reasonable assurance that expenditures were properly used for designated purposes when specified by the donor and accurately recorded in the accounting records. For the items tested, the council purchases complied with applicable legal provisions and management's authorization.

The Governor's Residence Council agreed with the audit report finding and will require residence staff to maintain a gift receipts log. The log will be forwarded periodically to the Department of Administration for comparison to deposits ensuring all funds were transmitted.



STATE OF MINNESOTA
OFFICE OF THE LEGISLATIVE AUDITOR
JAMES R. NOBLES, LEGISLATIVE AUDITOR

Representative Dan McElroy, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Dr. Sam Grabarski, Chair
Governor's Residence Council

Members of the Governor's Residence Council

We have audited the Governor's Residence Council for the period July 1, 1995, through December 31, 1998, as further explained in Chapter 1. Our audit scope included gift receipts and expenditures activity. We discuss our audit objectives and conclusions more fully in the individual chapters of this report.

We conducted our audit in accordance with *Government Auditing Standards*, as issued by the Comptroller General of the United States. Those standards require that we obtain an understanding of management controls relevant to the audit. The standards also require that we design the audit to provide reasonable assurance that the Governor's Residence Council complied with provisions of laws, regulations, and contracts significant to the audit. Management of the Governor's Residence Council is responsible for establishing and maintaining the internal control structure and for compliance with applicable laws, regulations, and contracts.

This report is intended for the information of the Legislative Audit Commission and the management of the Governor's Residence Council. This restriction is not intended to limit the distribution of this report, which was issued as a public document on July 15, 1999.

James R. Nobles
Legislative Auditor

Claudia J. Gudvangen
Deputy Legislative Auditor

End of Fieldwork: April 8, 1999

Report Signed On: July 7, 1999

Governor's Residence Council

Table of Contents

	Page
Chapter 1. Introduction	1
Chapter 2. Gift Revenues	3
Chapter 3. Expenditures and Assets Inventory	5
Status of Prior Audit Issues	7
Governor's Residence Council Response	8

Audit Participation

The following members of the Office of the Legislative Audit prepared the report:

Claudia Gudvangen, CPA	Deputy Legislative Auditor
Brad White, CPA, CISA	Audit Manager
David Polisenno, CPA, CISA	Auditor-In-Charge
Jill Weber	Auditor

Exit Conference

We discussed the results of the audit with the following representatives of the Governor's Residence Council, Department of Administration, and the Governor's Office at the exit conference held on June 25, 1999:

Dr. Sam Grabarski	Chair, Governor's Residence Council
Dan Creed	Residence Manager, Office of the Governor
Gary Johnson	Accounting Officer, Department of Administration
Wanda Hurtgen	Management Assistant, Department of Administration

Governor's Residence Council

Chapter 1. Introduction

The Governor's Residence Council was created in 1980 to develop and implement an overall restoration plan for the Governor's residence and surrounding grounds. The primary functions of the council are 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 authority of Minn. Stat. Section 16B.27.

The council consists of 19 members. Membership includes those designated by law and members chosen by the Governor from various specialized fields. Current members include the director of the Minnesota Historical Society, the executive director of the Minnesota State Arts Board, as well as the first family and the residence donor family. Additionally, the Governor appoints eight public members. Members of the council serve without compensation. Dr. Sam W. Grabarski has served as the elected chair since May 16, 1989.

Activities of the council are entirely funded through private donations from individuals, foundations, and organizations. Table 1-1 is a summary of the council's financial activity for fiscal years 1996-1998:

Table 1-1
Governor's Residence Council
Summary of Financial Activity
Fiscal Years 1996-1998

	1996	1997	1998
Beginning Balance	\$ 32,714	\$ 54,911	\$ 70,483
Revenues:			
Gift Receipts	\$ 81,705	\$ 24,400	\$ 14,700
Interest Earned	4,913	3,532	3,412
Total Revenue	\$ 86,618	\$ 27,932	\$ 18,112
Expenditures:			
Interior Design	\$ 57,802	\$ 5,453	\$ 47,087
Landscape	3,899	2,200	4,277
Repair and Replacement	1,739	2,326	782
Other Expenditures	981	2,381	175
Total Expenditures	\$ 64,421	\$ 12,360	\$ 52,321
Ending Balance	\$ 54,911	\$ 70,483	\$ 36,274

Note 1: Fluctuations in revenue and expenditures are due to the timing of various fundraising events and remodeling and refurbishing projects approved by the council.

Note 2: Fiscal year 1999 financial activity through December 31, 1998 is not shown.

Source: Minnesota Accounting and Procurement System (MAPS).

Governor's Residence Council

The Governor's residence is located at 1006 Summit Avenue in St. Paul and serves as the living quarters for the Governor. Governor Arne Carlson and First Lady Susan Carlson lived at the residence for the past two gubernatorial terms, which ended December 31, 1998.

The Governor's Residence Council does not oversee the daily operations of the residence. The Governor's residence is managed and operated by staff from the Governor's Office. The residence manager, cooks, food service and housekeeping services are compensated from the Governor's Office budget. General maintenance of the Governor's residence is the responsibility of the Commissioner of Administration.

Chapter 2. Gift Revenues

Chapter Conclusions

The Governor's Residence Council designed and implemented internal controls to provide reasonable assurance that gifts were accurately reported in the accounting records, and in compliance with applicable legal provisions and management's authorization. However, the council did not maintain a gift receipts log at the residence to control the timeliness and accuracy of state treasury deposits.

The Governor's Residence Council's primary responsibility is to accept gifts and donations for the residence on behalf of the State of Minnesota. The council formally accepts gifts from individuals, foundations, and organizations at its board meetings. Prior to acceptance, the Commissioner of Administration deposits the donations into the state treasury and submits a list of gifts to the Governor's Residence Council for approval. Upon acceptance, the council submits a gift acceptance letter and certificate to the donor. If the gift is not accepted, it is returned to the donor with a letter explaining its decision. The council records the official gift acceptance in its minutes.

The council deposits all monetary donations into the state treasury and earns interest on unexpended balances. The Department of Finance calculates the interest earned on these funds and transfers the amount to the council gift fund account. The gift fund earned about \$12,700 in investment income during the audit period. Donated revenues consisted of either designated or undesignated gifts. Undesignated gifts can be used for any residence purpose or project, while designated gifts must be spent as stipulated by the donor. As previously shown in Table 1-1, gift receipts totaled \$120,805 for fiscal years 1996 through 1998. An additional \$1,000 was received from July 1, 1998, through December 31, 1998.

The council determines the use of undesignated donations. The council also approves any plans developed for the improvement of the interior, exterior, or landscape of the residence. All plans must be approved by the chair of the originating committee (Landscape or Interior Design) and the chair of the council.

Occasionally, the Governor's Residence Council accepts donations where the donor designates a specific purpose for the donation. For example, the residence added a children's garden in 1993 to honor the state's commitment to children. Large stones line the path of the garden with plaques bearing the names of the children who have lived at the residence. The council establishes separate accounts in the accounting system to control and monitor the specified use of these funds. Designated donations totaled \$8,800 from July 1, 1995, to December 31, 1998. Of that amount, \$8,500 was designated for the residence library, \$200 for the children's garden, and \$100 for Christmas decorations.

Governor's Residence Council

Audit Objectives and Methodology

The primary objectives of our review of gift receipts were as follows:

- Did the Governor's Residence Council design and implement internal controls to provide reasonable assurance that gift collections were safeguarded and accurately reported in the accounting records?
- Did the Governor's Residence Council comply with applicable legal provisions and management's authorizations?

To meet these objectives, we interviewed staff from the Governor's Office and Department of Administration to gain an understanding of the controls over the council's receipts process. We reviewed deposits and accounting records to determine if staff properly deposited and accounted for amounts collected. We reviewed Governor's Residence Council minutes to determine if gifts were formally accepted, as required by statute, and properly identified for designated or undesignated purposes.

Conclusion

The Governor's Residence Council designed and implemented internal controls to provide reasonable assurance that gifts were accurately reported in the accounting records and in compliance with Minn. Stat. Section 16B.27, Subd.5(c). However, as discussed in the following finding, the Governor's Residence Council did not maintain a receipts log at the residence to verify that all of the gifts received were properly deposited and recorded.

1. The Governor's Residence Council did not maintain a gift receipts log at the residence.

Council gifts collected at the residence were not controlled by a receipts log and subsequent comparison to the state treasury deposit. The council's gift acceptance procedure requires a receipts log of gifts collected at the Governor's residence. The log documents the date the gift was received, amount donated, a description of any designated purpose or use, and the donor's name. Independent staff should periodically compare the log to state treasury deposits to ensure all gifts were promptly deposited. Also, the receipts log would help the council ensure that any designated donations would be properly recorded.

Recommendation

- *The Governor's Residence Council should ensure that a gift receipts log is maintained at the residence and periodically compared to deposits.*

Chapter 3. Expenditures and Assets Inventory

Chapter Conclusions

The Governor's Residence Council designed and implemented internal controls to provide reasonable assurance that donated and purchased assets were adequately safeguarded. Council controls also provided reasonable assurance that expenditures were properly used for designated purposes when specified by the donor and accurately recorded in the accounting records. For the items tested, the council's purchases complied with applicable legal provisions and management's authorizations.

Governor's Residence Council expenditures totaled \$154,744 for fiscal years 1996 through 1998, and for the first six months of fiscal year 1999. The council adopts an annual spending plan at the beginning of each fiscal year based on funds available. The council uses the funds for the upkeep and restoration of the residence. The Governor's Residence Council does not incur any payroll costs for its operations. Employees from the Department of Administration and the Governor's Office provide personnel support for the council's operations. The majority of council expenditures are for building and remodeling activities.

During the three years ended June 30, 1998, the council spent 85 percent of its expenditures on interior projects, primarily for three refinishing jobs. The refinishing projects included the residence dining room and library, woodwork on the first floor, and a new breakfront cabinet on the lower level. The projects also included painting and wallpapering.

All restoration, rehabilitation, furnishing, decorating, and structural alterations in excess of \$500 must first be approved by the council and directly supervised by a consultant hired by the Commissioner of Administration. Any work under \$500 that conforms with the overall restoration plan requires the approval of the Governor's spouse and the Commissioner of Administration. If the work is not part of the plan, the council chairperson's approval is also required. The council is required to follow the state's purchasing and bidding procedures.

The council assigns asset numbers to furniture and equipment purchases over \$500. The council also assigns asset numbers and inventory class codes for donated antique items. The council records these assets on the state's fixed asset inventory list, which the Department of Administration maintains. To identify the assets, the department maintains an inventory book consisting of a photograph of the asset, the asset number, inventory class code, and the asset's current location.

Audit Objectives and Methodology

The primary objectives of our review of expenditures and assets were as follows:

Governor's Residence Council

- Did the Governor's Residence Council design and implement internal controls to ensure that donated and purchased fixed assets were adequately safeguarded?
- Did the council design and implement controls to provide reasonable assurance that the expenditures were properly used for designated purposes when specified by the donor and accurately reported in the accounting records?
- Did the council comply with applicable legal provisions and management's authorization?

To meet these objectives, we interviewed the Department of Administration and Governor's Office employees to gain an understanding of the controls over the council's assets and expenditures. Assets acquired through donations and purchases were tested to determine whether inventory records were properly updated. We also inquired about the physical verification performed by Department of Administration staff. We analyzed expenditures and performed testing of expenditures to determine if staff properly authorized, processed, and recorded Governor's Residence Council expenditures. Council expenditures were also tested for compliance with applicable procurement requirements and management's authorization.

Conclusions

The Governor's Residence Council designed and implemented internal controls to provide reasonable assurance that donated and purchased assets were adequately safeguarded. Council controls also provided reasonable assurance that expenditures were properly used for designated purposes when specified by the donor and accurately recorded in the accounting records. For the items tested, the council procured items in compliance with applicable legal provisions and management's authorization.

Status of Prior Audit Issues

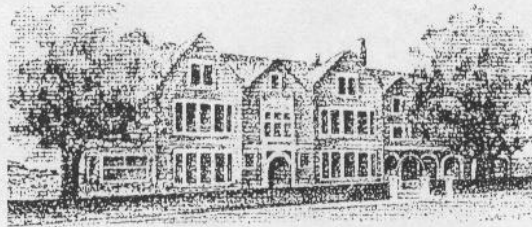
As of April 8, 1999

Most Recent Audit

July 1994, Legislative Audit Report 94-35 covered the three fiscal years ending June 30, 1993. The audit included a review of gift revenues, expenditures, and fixed assets. The report cited no audit issues.

State of Minnesota Audit Follow-Up Process

The Department of Finance, on behalf of the Governor, maintains a quarterly process for following up on issues cited in financial audit reports issued by the Legislative Auditor. The process consists of an exchange of written correspondence that documents the status of audit findings. The follow-up process continues until Finance is satisfied that the issues have been resolved. It covers entities headed by gubernatorial appointees, including most state agencies, boards, commissions, and Minnesota state colleges and universities. It is not applied to audits of the University of Minnesota, and quasi-state organizations, such as the metropolitan agencies, or the State Agricultural Society, the state constitutional officers, or the judicial branch.



GOVERNOR'S RESIDENCE COUNCIL

1006 Summit Avenue, Saint Paul, Minnesota 55105

Voice: 612-297-2161; TTY: 612-296-0075

June 29, 1999

Mr. James R. Nobles
Legislative Auditor
Office of the Legislative Auditor
1st Floor South, Centennial Building
658 Cedar Street
St. Paul, MN 55155

Dear Mr. Nobles:

Thank you for the opportunity to review the audit report on the Governor's Residence Council. The report brought to our attention the need for a receipt log to be maintained at the Governor's Residence of any gifts received for the Governor's Residence Council.

Beginning immediately, the staff at the Governor's Residence will maintain a receipt log and transmit a copy prior to the end of the fiscal year to the Department of Administration, Financial Management and Reporting Division or more frequently upon request. The Department of Administration will compare the log with the Governor's Residence Council deposits to ensure that all funds were transmitted for deposit.

The Council is aware that a log had been previously maintained, but recognizes that during the transition to the new Ventura administration, the records of the previous administration were not transferred or available to incoming staff to use. As a result, a copy of the log was unavailable for auditing purposes. The transmittal of the receipt log to the Department of Administration will provide the necessary records for any future legislative audits.

Sincerely,

Sam W. Grabarski
Chair
Governor's Residence Council

SWG/jz