O L A

OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

FINANCIAL AUDIT DIVISION REPORT

Office of the Governor

Internal Control and Compliance Audit

January 1, 2007, to January 31, 2009

June 12, 2009 **Report 09-22**

FINANCIAL AUDIT DIVISION
Centennial Building – Suite 140
658 Cedar Street – Saint Paul, MN 55155
Telephone: 651-296-4708 • Fax: 651-296-4712
E-mail: auditor@state.mn.us • Web site: http://www.auditor.leg.state.mn.us
Through Minnesota Relay: 1-800-627-3529 or 7-1-1

June 12, 2009

Senator Ann H. Rest, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Governor Tim Pawlenty
Office of the Governor

This report presents the results of our internal control and compliance audit of the Office of the Governor for the period January 1, 2007, through January 31, 2009.

We discussed the results of the audit with Office of the Governor's staff on June 2, 2009. The audit was conducted by Amy Jorgenson, CPA (Audit Manager) and Zach Yzermans, CPA (Auditor-in-Charge), assisted by auditor Tracia Gimbut.

This report is intended for the information and use 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 June 12, 2009.

We received the full cooperation of the Office of the Governor's staff while performing this audit.

/s/ James R. Nobles

James R. Nobles
Legislative Auditor

/s/ Cecile M. Ferkul

Cecile M. Ferkul, CPA, CISA
Deputy Legislative Auditor

Table of Contents

Report Summary

Conclusions

The Office of the Governor's internal controls were generally adequate to ensure that it safeguarded assets, produced reliable financial information, and complied with finance-related legal requirements. However, the office had some control weaknesses related to its receipts process, travel expenditures, and fixed assets. For the items tested, the Office of the Governor generally complied with finance-related legal requirements applicable to its financial activities. However, we found some instances of noncompliance related to travel expenditures and fixed assets.

Findings

- The Office of the Governor did not have adequate separation of duties over its receipts process. (Finding 1, page 7)
- The Office of the Governor did not always comply with employee expense reimbursement requirements. (Finding 2, page 8)
- The Office of the Governor did not record all fixed assets in its inventory listing. (Finding 3, page 9)
- The Office of the Governor did not establish a written agreement for services provided by an Office of Enterprise Technology employee. (Finding 4, page 9)

Audit Objectives and Scope

Objectives
- Internal Controls
- Legal Compliance

Period Audited
January 1, 2007, through January 31, 2009

Programs Audited
- Payroll Expenditures
- Travel Expenditures
- Administrative Expenditures, including Governor's Necessary Expense Account
- Governor's Residence Receipts
- Washington, DC Office Funding

Background

The Office of the Governor includes the Governor, Lieutenant Governor, and their employees. The duties and authority of the Governor and Lieutenant Governor are stated in Article V of the *Minnesota Constitution* and various statutes. The office is funded through an appropriation from the General Fund and employs approximately 40 people. In addition, the office obtains staff assistance from several state agencies.

Office of the Governor

Agency Overview

Article V of the *Minnesota Constitution* established the Office of the Governor in the executive branch of state government. The office includes the Governor, Lieutenant Governor, and their employees. The office operates under various statutes but principally under the authority of *Minnesota Statutes* 2008, Chapter 4. The Governor and Lieutenant Governor are elected jointly by a state-wide vote and serve a four-year term that begins the first Monday in January following the election. Governor Tim Pawlenty and Lieutenant Governor Carol Molnau were reelected to a second term in November 2006.

As chief executive, the Governor is responsible for the general direction, administration, and supervision of the affairs of state government, as well as the development of legislative proposals. The Lieutenant Governor's chief duty is to assist the Governor in carrying out the functions of the executive branch. The current Lieutenant Governor, Carol Molnau, also served as the Commissioner of the Department of Transportation from January 2003 through February 2008.

The Office of the Governor funded its activities through a direct appropriation from the state's General Fund. Employees from other state agencies provided the office with executive protection, computer network and database support, and groundskeeping services at the Governor's residence. Fourteen state agencies provided resources to the office to fund the operations of the Washington, DC Federal Affairs Office. The office also received reimbursements of costs for the private use of the Governor's residence.

Minnesota Statutes 2008, 10A.09, requires public officials, including the Governor, to file a statement of economic interest with the Campaign Finance and Public Disclosure Board. The statement requires disclosure of investments, real property holdings as an individual or partnership, and ownership or employment with any associated businesses. In addition, as a member of the State Board of Investment, *Minnesota Statutes* 2008, 11A.075, requires the Governor to file an annual disclosure statement of any expenses or reimbursements, such as meals, entertainment, transportation, lodging, and seminars exceeding $50 annually that were paid by investment companies or businesses in which the state has invested money. Governor Pawlenty filed the required reports for calendar years 2007 and 2008.

Table 1 summarizes the office's sources and uses for the period July 1, 2007, through June 30, 2008.

Table 1
Summary of Financial Activity
Fiscal Year 2008[1]

Sources	General Fund	Special Revenue Fund
Operating Appropriation	$3,679,000	$ 0
Transfers In – Technology Carryforward	0	200,000
Transfers In – Washington, DC Office	0	296,109
Washington, DC Office Operating Revenue[2]	0	48,892
Balance Forward In	0	75,994
Total Sources	$3,679,000	$620,995
Uses		
Payroll	$2,910,667	$274,734
Other Administrative Costs[3 & 4]	295,546	110,529
Travel	59,695	1,824
Rent	276,265	21,240
Other Uses – Balance Forward Out	136,827	212,668
Total Uses	$3,679,000	$620,995

[1]Our audit scope was January 1, 2007, through January 31, 2009. This scope included the last half of fiscal year 2007, all of fiscal year 2008, and the first seven months of fiscal year 2009. This table presents activity from the only full fiscal year in our audit scope.

[2]The Office of the Governor received funding from other state agencies in fiscal year 2008 to operate the Washington DC office. The office collects funds through agency transfer or direct payment. The $48,892 represents two agencies which paid by direct payment; the remaining agencies paid using an agency transfer in the amount of $296,109, which is shown on the line above the revenues.

[3]General Fund: Other administrative costs include repairs, alterations, and maintenance, printing and advertising, professional/technical services contracts, computer services, communications, supplies, equipment, employee development, state agency reimbursements, and other operating costs. The Governor's Necessary Expense Account totaled $4,794 for fiscal year 2008.

[4]Special Revenue Fund: Other administrative costs include repairs, alterations, and maintenance, printing and advertising, computer services, communications, supplies, equipment, employee development, statewide indirect costs, and other operating costs.

Source: Minnesota Accounting and Procurement System.

Objectives, Scope, and Methodology

Our audit of the Office of the Governor's payroll, travel, administrative expenditures, and selected receipts focused on the following audit objectives for the period of January 1, 2007, to January 31, 2009:

- Were the entity's internal controls adequate to ensure that it safeguarded its assets, complied with legal requirements, and produced reliable financial data?
- Did the entity comply with finance-related legal requirements?

- Did the entity conduct its financial operations in a prudent manner?

To answer these questions, we gained an understanding of the office's financial policies and procedures. We considered the risk of errors in the accounting records and noncompliance with relevant legal requirements. We analyzed accounting data to identify unusual trends or significant changes in financial operations. We examined samples of transactions and evidence supporting the agency's internal controls and compliance with laws, regulations, policies, and contracts.

We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives.

We used various criteria to evaluate internal control and compliance. We used as our criteria to evaluate agency controls the guidance contained in the *Internal Control-Integrated Framework*, published by the Committee of Sponsoring Organizations of the Treadway Commission.[1] We used state and federal laws, regulations, and contracts, as well as policies and procedures established by the departments of Management and Budget and Administration and the agency's internal policies and procedures as evaluation criteria over compliance.[2]

Conclusions

The Office of the Governor's internal controls were generally adequate to ensure that it safeguarded assets, produced reliable financial information, and complied with finance-related legal requirements. However, the office had some control weaknesses and noncompliance related to its receipts process, travel expenditures, and fixed assets.

For the items tested, the Office of the Governor generally complied with finance-related legal requirements over its financial activities. However, we found some instances of noncompliance related to travel expenditures and fixed assets.

The following *Findings and Recommendations* provide further explanation about the exceptions noted above.

[1] The Treadway Commission and its Committee of Sponsoring Organizations were established in 1985 by the major national associations of accountants. One of their primary tasks was to identify the components of internal control that organizations should have in place to prevent inappropriate financial activity. The resulting *Internal Control-Integrated Framework* is the accepted accounting and auditing standard for internal control design and assessment.

[2] The Department of Management and Budget consists of the former departments of Finance and Employee Relations.

Findings and Recommendations

Finding 1

The Office of the Governor did not have adequate separation of duties over its receipts process.

Because the office had not comprehensively assessed its risks and controls related to receipts as required by state policy,[3] it did not adequately separate receipt duties. The office received about $100,000 in receipts during our audit scope, mostly payments submitted by nonstate entities for use of the Governor's residence. The office initially recorded receipts in an electronic log at the Governor's main office. Employees from the Governor's accounting office picked up the checks, recorded them on a cash receipt register, deposited the receipts in the state treasury, and posted the receipt transactions to the state's accounting system. These duties are incompatible because they allowed one person to have control of the deposit throughout the process.

The office also had the following weaknesses in processing receipts:

- Accounting employees responsible for the receipts process had edit access to the original electronic receipt log. This could allow these employees to change the electronic log to make items balance, increasing the risk of fraud.

The office did not appropriately perform key parts of its receipts reconciliation. Specifically, it did not reconcile the initial receipt log and the state's accounting system. Instead, it reconciled receipts between the cash receipt register and the state's accounting system.

Separation of incompatible functions is a fundamental internal control that prevents an employee from handling a transaction from beginning to end without the involvement of another employee. Once we brought these issues to the office's attention, management began the process of revising its receipt procedures.

[3] Department of Management and Budget Policy 0102-01.

Recommendation

- *The office should assess its risks and controls related to receipts and should develop an adequate separation of duties over its receipt process.*

Finding 2

The Office of the Governor did not always comply with employee expense reimbursement requirements.

The office did not always ensure that travel and other expense reimbursement claims were supported by adequate documentation or paid in accordance with collective bargaining units or other applicable agreements, rules, or regulations.[4]

The office had the following weaknesses in the 40 employee expense reports we tested:

- One employee accrued about 8,300 airline miles to his personal account for four separate state business trips and did not submit the required report to the Office of the Governor about the accrued miles. *Minnesota Statutes* require that whenever public funds are used to pay for airline travel by a public employee, any credits or other benefits issued by any airline must accrue to the benefit of the public body providing the funding.[5] The statute also requires the employee to report the accrued miles to the "public body" paying for the travel within 90 days of receipt of the benefit. After we discovered the problem, the office asked the employee to remove the miles from his account. We verified the reduction.

- On five of the expense reports we tested, the office reimbursed employees $3,094 for travel and supply expenses that lacked original receipts. The Department of Management and Budget's policy defines original receipts as the first detailed source document issued to the employee that is marked, by the vendor, indicating that the bill or invoice was paid. This policy requires original receipts for almost all expenses.[6]

Recommendations

- *The office should monitor employees' business expense reimbursements to ensure compliance with statutes that prohibit personal benefit from state paid travel expenditures.*

[4] Department of Management and Budget Operating Policy and Procedure PAY0021.
[5] *Minnesota Statutes* 2008, 15.435.
[6] Department of Management and Budget Operating Policy and Procedure PAY0021: Travel Expense Receipts.

- *The office should review reimbursement claims before payment to ensure that claims are supported by original documentation.*

Finding 3

The Office of the Governor did not record all fixed assets in its inventory listing.

The office did not record two fixed asset purchases we tested in its inventory records. Unrecorded equipment included an April 2007 purchase of a computer server that cost approximately $5,000 and a July 2008 purchase of an automatic signature machine that cost approximately $8,500. The Department of Administration's *User Guide to State Property Management* requires agencies to include capital assets that cost $5,000 or more in an inventory listing.[7]

Recommendation

- *The office should record fixed assets purchased and maintain a complete fixed asset inventory.*

Finding 4

The Office of the Governor did not establish a written agreement for services provided by an Office of Enterprise Technology employee.

Since 1999, an Office of Enterprise Technology employee has provided computer support and database services to the office.[8] State policy allows state agencies to "share resources or work, or do work for each other to make the best use of state resources."[9] The policy provides for these arrangements to be formally documented in an interagency agreement. The agreement should define the services provided, the period of the agreement, and the financial responsibilities of the departments. Without an authorized written agreement, questions or conflicts about duties and compensation responsibilities could arise.

Recommendation

- *The office should have a written agreement with the Office of Enterprise Technology to formalize duties and compensation responsibilities for the employee who provided technology services.*

---

[7] Department of Administration's User Guide to State Property Management, page 2-1.
[8] Office of Enterprise Technology was created July 1, 2005; prior to this, the employee was employed by the Department of Administration's InterTechnologies Group.
[9] Department of Administration Operating Policy and Procedure 0705-05.

STATE OF MINNESOTA
Office of Governor Tim Pawlenty
130 State Capitol • 75 Rev. Dr. Martin Luther King Jr. Boulevard • Saint Paul, MN 55155

June 9, 2009

James Nobles
Legislative Auditor
Office of the Legislative Auditor
First Floor South, Centennial Building
658 Cedar Street
St. Paul, Minnesota 55155

Dear Mr. Nobles:

Thank you for your comprehensive financial audit for the time period January 1, 2007 through January 31, 2009. The Governor's Office appreciates the thorough review, as well as your recommendations.

With regard to the report's findings and recommendations:

Finding 1
The Office of the Governor did not have adequate separation of duties over its receipts process.

Recommendation:
The office should assess its risks and controls related to receipts and should develop an adequate separation of duties over its receipt process.

Response:
The office has reviewed its procedures related to the receipts process and changes have been made to ensure adequate separation of duties. The revised procedures were reviewed by Minnesota Management and Budget (MMB) and a copy was shared with the Legislative Auditor's Office.

Voice: (651) 296-3391 or (800) 657-3717 Fax: (651) 296-2089 TDD: (651) 296-0075 or (800) 657-3598
Web site: http://www.governor.state.mn.us An Equal Opportunity Employer

Finding 2:
The Office of the Governor did not always comply with employee expense reimbursement requirements.

Recommendations:
The office should monitor employees' business expense reimbursements to ensure compliance with statutes that prohibit personal benefit from state paid travel expenditures.

The office should review reimbursement claims before payment to ensure that claims are supported by original documentation.

Response:
The Governor's Office issues regular reminders to staff about the policy that prohibits personal benefit from state paid travel expenditures. Special attention will be paid to travel arrangements made directly by an employee to confirm that no personal frequent flyer number was used for state travel. In the case where one employee accrued personal miles for state trips, the employee had used a personal Expedia profile to book the travel and, due to use of this profile, the system automatically entered the personal frequent flyer number to the trip and the employee did not see this. As noted in your findings, as soon as this was brought to our attention the employee took action to have all miles removed from the personal account and your office verified that this took place.

The Governor's Office does review reimbursement claims before payment is made to ensure that claims are supported by original documentation. Of the five expense reports referenced in the finding, all had copies of original receipts. The state policy related to receipts states:

> *If a receipt is lost, the agency must require the employee to obtain a duplicate receipt, if possible, in order to be reimbursed. For example, an employee can call a hotel to get a copy of the original itemized receipt.*

All five expense reports referenced had copies of the original receipts. Our office neglected, however, to note that these were in place of the original on the expense report or the copy of the receipt. In the future, this office will continue to require the original receipt; if one is not available, a copy of the original will be provided and we will make sure that the copy includes a statement referencing that the original was lost and that the copy will serve as the original.

Finding 3:
The Office of the Governor did not record all fixed assets in its inventory listing.

Recommendation:
The office should record fixed asset purchased and maintain a complete fixed asset inventory.

Response:
The office has added the two fixed assets that were missing from the inventory. Paula Brown, Director of Operations, has reviewed the fixed asset policy and procedures with staff to ensure that responsible staff is well aware of the requirements. We also reviewed all expenditures made during this audit period to verify that all fixed assets and sensitive items are on the inventory.

Finding 4:
The Office of the Governor did not establish a written agreement for services provided by an Office of Enterprise Technology employee.

Recommendation:
The office should have a written agreement with the Office of Enterprise Technology to formalize duties and compensation responsibilities for the employee who provided technology services.

Response:
The Governor's Office has reported these services each year for the past 10 years in the memo sent to the Legislative Committee Chairs. Going forward, the Office of the Governor will work with OET to create a written agreement for the technology support that this employee provides.

We appreciate the professional work that you and your staff have provided during this audit. If you have any further questions or concerns, please feel free to contact me.

Sincerely,

Matt Kramer
Chief of Staff

cc: Governor Tim Pawlenty
Paula Brown