



**OFFICE OF GOVERNOR
TWO YEARS ENDED JUNE 30, 2002**

**From The Office Of State Auditor
Claire McCaskill**

**Report No. 2003-34
April 11, 2003
www.auditor.state.mo.us**

AUDIT REPORT



Office Of The
State Auditor Of Missouri
Claire McCaskill

April 2003

The following concerns were noted as a result of an audit conducted by our office of the Office of Governor.

The operations of the Office of Governor have been supplemented by appropriations of other state agencies, thus circumventing the appropriation process as established by the General Assembly. The Office of Governor receives appropriations from the General Revenue Fund-State for the operating costs of the Governor's office and mansion.

While it appears the appropriations are intended to cover the basic operating costs of the office, we noted various employees within the Governor's office that were budgeted to and paid from appropriations of other state agencies. These employees were physically located in and supervised by the Governor's office, and performed duties attendant to programs and functions of the Office of Governor; however, the salaries of these employees were paid from appropriations of other state agencies.

At various times, up to ten individuals were paid partially by other state agencies, with the remainder being paid by the Office of Governor. These employees prepared time sheets for the Office of Governor. While some of the activities performed by these employees were related to the departments which paid their salaries, it appears their primary job responsibilities were functions associated with the Office of Governor. In addition, up to three individuals were fully paid from appropriations of the Office of Administration (OA).

It appears the costs of some of the Governor's plane flights are also being supplemented by appropriations of other state agencies. A review of the Governor's flights, through OA Flight Operations, during calendar year 2001 showed a marked change in how the Office of Governor paid for flights from the first half to the second half of the year. Throughout 2001, other state agencies increasingly paid the costs of the Governor's flights.

The review included 113 flights, totaling \$117,692, for the Governor after his inauguration in January 2001 through the end of the calendar year. In the first half of the year, the Office of Governor paid 95 percent of the flight costs, and two other agencies, the Department of Economic Development and Department of Higher Education, paid the remaining costs. However, in the second half of the year, the Office of Governor only paid 59 percent of the flight costs and 12 other state agencies paid the remaining costs. In addition, in the second half of the year, other state agencies paid the entire cost of 29 percent of the total flights transporting the Governor.

YELLOW SHEET

According to members of the Governor's staff, it was normal procedure for a state agency to pay the entire cost of the Governor's flight when the purpose of the flight had to do with agency issues. However, it appears that other agencies paying the entire flight costs did not become "normal procedure" until after June 2001.

The Office of Governor needs to improve the accountability over the functions held at the mansion to ensure public funds are spent appropriately. The mansion's calendar of events and other documentation did not include sufficient information to determine the purpose or the source of funding for the various functions.

The calendar of events and other documentation, maintained by the mansion staff, did not include the purpose of the function (such as official, political, or personal), nor the source of funding for the functions (such as Missouri Mansion Preservation, Inc., other state agencies, mansion appropriations, or private/political entities). Without this level of detail, it is impossible to determine if all mansion functions were a reasonable, necessary, and prudent use of public funds.

Although the Office of Governor maintains invoices for mansion expenditures from state funds, these invoices do not constitute adequate and/or complete records of the purpose and funding of all mansion functions. A clear, documented purpose is necessary to ensure public funds are spent appropriately.

The office needs to improve its records and procedures for fixed assets. All fixed assets were not observed during physical inventories. Also, a physical inventory of the mansion's fixed assets has not been conducted since December 2000.

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FINANCIAL SECTION

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CLAIRE C. McCASKILL
Missouri State Auditor

**INDEPENDENT AUDITOR'S REPORT ON
THE FINANCIAL STATEMENT**

Honorable Bob Holden, Governor
Jefferson City, MO 65102

We have audited the accompanying Comparative Statement of Appropriations and Expenditures of the Office of Governor for the years ended June 30, 2002 and 2001, as identified in the table of contents. This financial statement is the responsibility of the office's management. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1 to the financial statement, this financial statement was prepared on the state's legal budgetary basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to in the first paragraph presents fairly, in all material respects, the appropriations and expenditures of the Office of Governor for the years ended June 30, 2002 and 2001, on the basis of accounting discussed in Note 1.

In accordance with *Government Auditing Standards*, we also have issued our report dated November 8, 2002, on our consideration of the office's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statement, taken as a whole, that is referred to in the first paragraph. The accompanying financial information listed as supplementary data in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statement. Such information has been subjected to the auditing procedures applied in the audit of the financial statement and, in our opinion, is fairly stated, in all material respects, in relation to the financial statement taken as a whole.

The accompanying History, Organization, and Statistical Information is presented for informational purposes. This information was obtained from the office's management and was not subjected to the auditing procedures applied in the audit of the financial statement referred to above. Accordingly, we express no opinion on the information.

A handwritten signature in black ink, reading "Claire McCaskill". The signature is fluid and cursive, with the first name "Claire" and last name "McCaskill" clearly distinguishable.

Claire McCaskill
State Auditor

November 8, 2002 (fieldwork completion date)

The following auditors participated in the preparation of this report:

Director of Audits:	Kenneth W. Kuster, CPA
Audit Manager:	Toni M. Crabtree, CPA
In-Charge Auditor:	Marty Beck
Audit Staff:	Mark Rodabaugh



CLAIRE C. McCASKILL
Missouri State Auditor

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

Honorable Bob Holden, Governor
Jefferson City, MO 65102

We have audited the financial statement of the Office of Governor for the years ended June 30, 2002 and 2001, and have issued our report thereon dated November 8, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the financial statement of the Office of Governor is free of material misstatement, we performed tests of the office's compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted an immaterial instance of noncompliance which is described in the accompanying Management Advisory Report.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement of the Office of Governor, we considered the office's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited.

may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information and use of the management of the Office of Governor and other applicable government officials. However, pursuant to Section 29.270, RSMo 2000, this report is a matter of public record and its distribution is not limited.

A handwritten signature in black ink, reading "Claire McCaskill". The signature is fluid and cursive, with the first name "Claire" and last name "McCaskill" clearly distinguishable.

Claire McCaskill
State Auditor

November 8, 2002 (fieldwork completion date)

Financial Statement

Exhibit

OFFICE OF GOVERNOR
COMPARATIVE STATEMENT OF APPROPRIATIONS AND EXPENDITURES

Year Ended June 30,						
2002			2001			
	Appropriation	Expenditures	Lapsed Balances	Appropriation	Expenditures	Lapsed Balances
GENERAL REVENUE FUND-STATE						
NATIONAL GUARD EMERGENCY	\$ 55,543	51,520	4,023	85,001	19,696	65,305
MANSION PRESERVATION ADVISORY COMMISSION	6,000	0	6,000	3,000	0	3,000
GOVERNMENT EMERGENCY FUND COMMISSION	1	0	1	1	0	1
SPECIAL AUDITS	100,000	58,125	41,875	100,000	8,980	91,020
MANSION OPERATING EXPENSE	197,494	140,767	56,727	196,612	158,024	38,588
GOVERNOR'S OFFICE	2,006,381	1,617,675	388,706	1,998,275	1,871,782	126,493
ASSOCIATION DUES	144,750	144,650	100	139,450	139,450	0
Total General Revenue Fund-State	\$ 2,510,169	2,012,737	497,432	2,522,339	2,197,932	324,407

Office officials indicated the lapsed balances included the following withholdings made at the Governor's request:

	Year Ended June 30, 2002
General Revenue Fund-State:	
Mansion Operating Expense	\$ 35,549
Governor's Office	339,532
Total	\$ 375,081

The accompanying Notes to the Financial Statement are an integral part of this statement.

Supplementary Data

Schedule 1

OFFICE OF GOVERNOR
COMPARATIVE STATEMENT OF EXPENDITURES (FROM APPROPRIATIONS)

	Year Ended June 30,		
	2002	2001	2000
Governor's Office:			
Salaries and wages	\$ 1,360,435	1,545,926	1,580,997
Travel, in-state	76,061	106,019	79,167
Travel, out-of-state	10,262	9,918	19,826
Supplies	42,979	36,766	31,168
Professional development	2,127	2,320	8,746
Communication service and supplies	54,414	53,266	45,173
Services:			
Business	0	50,486	14,286
Professional	38,990	12,609	21,627
Maintenance and repair	22,289	0	0
Equipment maintenance and repair	0	25,408	24,702
Transportation maintenance and repair	0	494	0
Computer equipment	444	5,149	21,488
Electronic and photographic equipment	0	1,272	1,485
Office equipment	939	108	1,032
Other equipment	623	0	0
Specific use equipment	0	0	147
Real property rentals and leases	65	0	0
Equipment rentals and leases	2,166	0	0
Building and equipment rentals	0	723	1,558
Relocation costs/employee	3,480	0	6,982
Agency provided food	1,951	2,954	4,956
Miscellaneous expenses	450	18,364	1,625
Total office expenditures	<u>1,617,675</u>	<u>1,871,782</u>	<u>1,864,965</u>

Schedule 1

OFFICE OF GOVERNOR
COMPARATIVE STATEMENT OF EXPENDITURES (FROM APPROPRIATIONS)

	Year Ended June 30,		
	2002	2001	2000
Mansion Operating:			
Salaries and wages	91,841	89,284	99,180
Travel, in-state	0	0	553
Supplies	8,002	9,595	11,567
Professional development	0	755	2,617
Communication service and supplies	5,976	3,891	6,862
Services:			
Business	0	5,460	3,734
Professional	4,095	368	1,875
Maintenance and repair	1,615	0	0
Equipment maintenance and repair	0	422	675
Computer equipment	0	20	0
Motorized equipment	0	0	1,406
Office equipment	144	0	1,956
Other equipment	126	0	0
Specific use equipment	0	275	362
Equipment rentals and leases	135	0	0
Building and equipment rentals	0	36	2,060
Agency provided food	28,513	47,712	56,083
Miscellaneous expenses	320	206	167
Total mansion expenditures	<u>140,767</u>	<u>158,024</u>	<u>189,096</u>
National Guard emergency	51,520	19,696	14,265
Special Audits	58,125	8,980	51,225
Association Dues	144,650	139,450	133,250
Total	<u>\$ 2,012,737</u>	<u>2,197,932</u>	<u>2,252,801</u>

Note: Certain classifications of expenditures changed during the three-year period which may affect the comparability of the amounts.

The accompanying Note to the Supplementary Data is an integral part of this statement.

Schedule 2

OFFICE OF GOVERNOR
STATEMENT OF CHANGES IN GENERAL FIXED ASSETS

	Office Equipment	Office Furniture	Motor Vehicles	Total
Office:				
Balance, July 1, 2000	\$ 332,254	192,656	1,500	526,410
Additions	0	1,138	0	1,138
Dispositions	(5,702)	0	0	(5,702)
Balance, June 30, 2001	326,552	193,794	1,500	521,846
Additions	4,761	0	0	4,761
Dispositions	(54,949)	(75,452)	0	(130,401)
Balance, June 30, 2002	276,364	118,342	1,500	396,206
Mansion:				
Balance, July 1, 2000	42,398	135,921	2,925	181,244
Additions	2,176	0	0	2,176
Dispositions	(3,960)	0	0	(3,960)
Balance, June 30, 2001	40,614	135,921	2,925	179,460
Additions	0	0	0	0
Dispositions	(609)	0	(2,925)	(3,534)
Balance, June 30, 2002	40,005	135,921	0	175,926
Total General Fixed Assets \$	316,369	254,263	1,500	572,132

The accompanying Note to the Supplementary Data is an integral part of this statement.

Notes to the Financial Statement and Supplementary Data

OFFICE OF GOVERNOR
NOTES TO THE FINANCIAL STATEMENT AND SUPPLEMENTARY DATA

Notes to the Financial Statement:

1. Summary of Significant Accounting Policies

A. Reporting Entity and Basis of Presentation

The accompanying financial statement presents only selected data for the General Revenue Fund-State of the Office of Governor.

Appropriations, presented in the Exhibit, are not separate accounting entities. They do not record the assets, liabilities, and equities of the related funds but are used only to account for and control the office's expenditures from amounts appropriated by the General Assembly.

Expenditures presented for each appropriation may not reflect the total cost of the related activity. Other direct and indirect costs provided by the office and other state agencies are not allocated to the applicable fund or program.

B. Basis of Accounting

The Statement of Appropriations and Expenditures, Exhibit, is presented on the state's legal budgetary basis of accounting. For years ended on or after June 30, 2001, expenditures generally consist of amounts paid by June 30, with no provision for lapse period expenditures unless the Office of Administration approves an exception. Amounts encumbered at June 30 must be either canceled or paid from the next year's appropriations.

However, the General Assembly may authorize continuous biennial appropriations, for which the unexpended balances at June 30 of the first year of the two-year period are reappropriated for expenditure during the second year. Therefore, such appropriations have no lapsed balances at the end of the first year.

The budgetary basis of accounting differs from accounting principles generally accepted in the United States of America. Those principles require revenues to be recognized when they become available and measurable or when they are earned and expenditures or expenses to be recognized when the related liabilities are incurred.

C. Fiscal Authority and Responsibility

The office administers transactions in the General Revenue Fund-State. The state treasurer as fund custodian and the Office of Administration provide administrative control over fund resources within the authority prescribed by the General Assembly.

The office receives appropriations from this fund and does not maintain a proprietary interest in the fund. Appropriations from the fund are used for the basic operation of the office and mansion, including those programs and services that have no other funding source. These appropriations also may be used to initially fund, or to provide matching funds or support for, programs paid wholly or partially from other sources.

D. Employee Fringe Benefits

In addition to the social security system, employees are covered by the Missouri State Employees' Retirement System (MOSERS) (a noncontributory plan) and may participate in the state's health care, optional life insurance, cafeteria, and deferred compensation and deferred compensation incentive plans. The optional life insurance and cafeteria plans involve only employee contributions or payroll reductions. The deferred compensation plan involves employee payroll deferrals and the deferred compensation incentive plan a monthly state contribution for each employee who participates in the deferred compensation plan and has been employed by the state for at least one year.

The state's required contributions for employee fringe benefits are paid from the same funds as the related payrolls. Those contributions are for MOSERS (retirement, basic life insurance, and long-term disability benefits); social security and medicare taxes; health care premiums; and the deferred compensation incentive amount.

Transfers related to salaries are not appropriated by agency and thus are not presented in the financial statement at the Exhibit.

2. Program Specific

The Office of Governor is appropriated funds to pay for Missouri's share in various national and regional programs. The office makes a lump sum payment annually to the National Governor's Association and the Southern Governor's Association. These payments are for Missouri's share of the expense of program operations.

Note to the Supplementary Data:

3. General Fixed Assets

Beginning in fiscal year 2002, the office converted its fixed asset records to the Statewide Advantage for Missouri (SAM II) System. General fixed assets, which are recorded as expenditures when acquired, are capitalized at cost in the General Fixed Assets Account Group. General fixed assets are depreciated on a straight line basis using a five year useful life classification and a salvage value of zero. Accumulated depreciation on fixed assets at June 30, 2002, was \$352,443.

General fixed assets for the mansion are not reported on the SAM II; therefore, are not depreciated. The Office of Administration, Division of Facilities Management purchases fixed assets for the mansion in addition to those purchased through the Governor's appropriation. These assets are included on the property records of that division and total \$8,359 at June 30, 2002.

MANAGEMENT ADVISORY REPORT SECTION

Management Advisory Report-State Auditor's Findings

OFFICE OF THE GOVERNOR
MANAGEMENT ADVISORY REPORT -
STATE AUDITOR'S FINDINGS

We have audited the financial statement of the Office of Governor for the years ended June 30, 2002 and 2001, and have issued our report thereon dated November 8, 2002.

The following Management Advisory Report presents our findings arising from our audit of the Office of Governor's financial statement. During our audit, we also identified certain management practices which we believe could be improved. Our audit was not designed to be a detailed study of every system, procedure, and transaction. Accordingly, the findings presented in the following report should not be considered all-inclusive of areas needing improvement.

1.	Operating Costs from Other Appropriations
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The operations of the Office of Governor have been supplemented by appropriations of other state agencies, thus circumventing the appropriation process as established by the General Assembly. The Office of Governor receives appropriations from the General Revenue Fund-State for the operating costs of the Governor's office and mansion. Those appropriations totaled approximately \$2.5 million each year for the years ended June 30, 2002 and 2001.

- A. While it appears the appropriations are intended to cover the basic operating costs of the office, we noted various employees were budgeted to and paid from appropriations of other state agencies. These employees were physically located in and supervised by the Governor's office, and performed duties attendant to programs and functions of the Office of Governor; however, the salaries of these employees were paid from appropriations of other state agencies.

For fiscal year 2002 and from January 8 (beginning of the governor's term) to June 30, 2001, salaries paid from the Governor's and other agencies' appropriations were approximately:

Salaries paid by:		FY2002	FY2001 (January 8-June 30)
Governor:			
Office	\$	1,360,400	789,900
Mansion		91,800	35,700
Other Agencies		380,500	172,500
Total	\$	1,832,700	998,100

- At various times, up to three individuals were fully paid from appropriations of the Office of Administration (OA).

One employee was the Director of Information Technology, and another employee was an administrative assistant. The third employee was the Administrative Director; however, she was only paid from an OA appropriation for approximately six months in fiscal year 2002. Except for the Director of Information Technology who prepared time sheets for OA, these employees prepared time sheets for the Office of Governor.

- At various times, up to ten individuals were paid partially by other state agencies, with the remainder being paid by the Office of Governor. These employees prepared time sheets for the Office of Governor.

While some of the activities performed by these employees were related to the departments which paid their salaries, it appears their primary job responsibilities were functions associated with the Office of Governor.

For example, these individuals included the Cabinet Director who received approximately 90 percent of his salary from the Department of Corrections and the Department of Mental Health, the Senior Policy Advisor who received approximately 75 to 90 percent of his salary from the Department of Insurance and the Department of Health, and the Assistant Director of Legislative Affairs who received approximately 60 to 85 percent of her salary from the Department of Elementary and Secondary Education, the Department of Higher Education, and the Department of Social Services.

No documentation was provided to support how the percentages were established. Therefore, it could not be determined whether the portion of the salaries paid by the other agencies was a reasonable reflection of the work performed by the applicable employees for those agencies. If these employees are performing work for the Office of the Governor, their salaries and expenses should be paid from Governor's office appropriations.

- According to the Director of Administration, no salaries are split with other agencies in fiscal year 2003. However, nine office employees' salaries are now fully paid by the OA. These employees include support staff such as executive secretaries, an administrative assistant, a courier, a receptionist, and the Director of Information Technology.

The practice of paying the salaries of office personnel from other agencies' appropriations makes it difficult to establish accountability for the costs of operating the Office of Governor.

- B. It appears the costs of some of the Governor's plane flights are also being supplemented by appropriations of other state agencies. A review of the Governor's flights, through OA Flight Operations, during calendar year 2001 showed a marked change in how the Office of Governor paid for flights from the

first half to the second half of the year. Throughout 2001, other state agencies increasingly paid the costs of the Governor's flights.

The review included 113 flights, totaling \$117,692, for the Governor after his inauguration in January 2001 through the end of the calendar year. This review did not include 11 flights, totaling \$12,908, which occurred after the election in November 2000, but before the inauguration and which were mostly paid from the Governor Elect's transition appropriation.

In the first half of the year, the Office of Governor paid 95 percent of the flight costs, and two other agencies, the Department of Economic Development and Department of Higher Education, paid the remaining costs. However, in the second half of the year, the Office of Governor only paid 59 percent of the flight costs and 12 other state agencies paid the remaining costs.

In addition, in the second half of the year, other state agencies paid the entire cost of 29 percent of the total flights transporting the Governor. The table below shows who paid for the Governor's flights during 2001:

	January-May	June-December
Office of Governor Costs	\$59,300	\$32,512
Other Agencies Costs	\$ 3,026	\$22,854
Percent Paid by Office of Governor	95%	59%
Number of Flights Fully Paid by Office of Governor	57	29
Number of Flights Fully Paid by Other Agencies	0	15
Number of Flights with Cost Split with Other Agencies	4	8

According to members of the Governor's staff, there was no policy change on state plane flights and how the flights were billed/paid, and other state agencies paid part and/or all of the flight costs "depending on the event." The two flights described below show the kind of "event" in which another agency would cover the Governor's flight costs:

- The Department of Agriculture (DOA) paid the entire cost, totaling \$2,397, of a statewide fly around for the Farmland Protection Act bill signing on June 28, 2001. The fly around included stops in Sikeston, Springfield, St Joseph, Macon and St. Louis. Flying with the Governor were two members of his staff, two individuals from the DOA, and the Speaker of the House. The first four stops were for the bill signing and the last stop was for an economic development meeting in St. Louis. An

initial invoice from Flight Operations billed the Office of Governor the full cost; however, the DOA later paid the entire bill.

- The Department of Public Safety (DPS) paid the entire cost, totaling \$2,587, of a statewide fly around promoting legislation on drunken driving offenses on June 12, 2001. The fly around included stops in Springfield, Joplin, Cape Girardeau and Kansas City. Flying with the Governor were three members of his staff, the Director of DPS, and a state representative. Initially, Flight Operations divided the flight costs between the Office of Governor and the DPS. However, it appears that the Office of Governor instructed Flight Operations to bill the DPS for the cost of the entire fly around because the Governor was promoting a DPS legislative issue.

According to members of the Governor's staff, it was normal procedure for a state agency to pay the entire cost of the Governor's flight when the purpose of the flight had to do with agency issues. However, it appears that other agencies paying the entire flight costs did not become "normal procedure" until after June 2001. In addition, Flight Operations staff confirmed that there was a change in the billing procedures for the Office of Governor and other state agencies at this time.

Although it appears appropriate that other state agencies share in flight costs when agency employees fly with the Governor, it does not appear reasonable that agencies bear the entire cost of flights when the Governor is performing his official duties. This practice distorts the actual costs of operating the Office of Governor and the other agencies.

WE RECOMMEND the Office of Governor discontinue the practice of using other state agencies' appropriations to pay operating costs of the office. The Office of Governor should request funding levels sufficient to pay all operating costs of the office from its own appropriations.

AUDITEE'S RESPONSE

- A. *Per State Auditor Office audits as far back as 1977, the Governor's Office has allocated portions of Governor's staff salaries to agencies for which Governor's Staff work. As of FY03, the General Assembly mandated that the Governor's Office no longer allocate salaries. Further, in the FY03 budget for the Governor's Office, the General Assembly reappropriated six full time equivalents (FTE) from the Governor's Office for support staff to the Office of Administration (OA) budget. According to statute (RSMo. 37.010), a duty of OA is to provide support to the Office of the Governor. In the same realm, two additional FTE support staff, have been funded by the OA since Governor Holden took office in January, 2001.*

The Governor's Office has complied with the appropriation of the General Assembly. The six positions were moved to the OA.

- B. *It is appropriate for agencies to pay travel expenses for the Governor, when agencies request his presence at their events.*

2. Fixed Assets

The office needs to improve its records and procedures for fixed assets. All fixed assets were not observed during physical inventories. In addition, an annual statement of changes in fixed assets is not prepared, a complete list of all additions and dispositions is not maintained, and complete and accurate information is not always included in the property records. Also, a physical inventory of the mansion's fixed assets has not been conducted since December 2000.

A separate inventory of general fixed assets is maintained for the Governor's office and mansion. At June 30, 2002, the inventory balance for the office and mansion totaled approximately \$396,000 and \$176,000, respectively. Our review of property records indicated the following concerns:

- A. Office personnel did not always observe all fixed assets during physical inventories. In fiscal year 2001, the office wrote-off fixed assets, totaling approximately \$73,000, as lost. However, we located fixed assets written-off, totaling approximately \$3,000, in a storage area. In addition, we found a computer printer, costing approximately \$2,000, in the office which was tagged, but not included on the property records.

According to office personnel, the items, identified as lost, could not be located during the first inventory taken by the new administration. They indicated that they searched for the missing items and questioned previous administration staff. Also, they believe that many of these items may have been retagged and are not actually missing.

To ensure that fixed assets are adequately safeguarded and accounted for, thorough and complete fixed asset inventories, including physical observations of the actual items, and investigations of significant discrepancies between the fixed asset records and the physical inventory should be performed.

- B. An annual statement of changes in fixed assets is not prepared. In addition, a complete list of all additions and disposition is not maintained, and fixed asset purchases are not reconciled to property additions on a periodic basis. We noted computer equipment purchases, totaling approximately \$4,800, were not recorded in the fixed asset records. Although, we reconstructed the records to allow for the preparation of the statement of changes in fixed assets, the office needs to improve its procedures and records so the statement can be readily prepared.

The Code of State Regulations, at 15 CSR 40-2.031 provides that each department should annually prepare a statement of changes in fixed assets to summarize the

transactions occurring during the fiscal year and account for all acquisitions and dispositions. In addition, the failure to properly record property items reduces the control and accountability over fixed assets and increases the potential for loss, theft, or misuse of assets.

- C. Fixed asset records do not always include complete descriptions, accurate locations, and model and serial numbers where applicable. Such information is necessary to assist in the annual inventory and to provide complete and accurate fixed asset records.

The Code of State Regulations, at 15 CSR 40-2.031, requires departments to maintain adequate fixed asset records that contain identification number; description of the item including name, make, model and serial number, where appropriate; acquisition cost; date of acquisition; estimated useful life at the date of acquisition; physical location in sufficient detail to readily locate the item; and method and date of disposition.

- D. A physical inventory of the mansion's fixed assets has not been conducted since December 2000. Annual physical inventories are necessary to establish proper accountability over fixed assets. In addition, the Code of State Regulations, at 15 CSR 40-2.031 requires an annual physical inventory of fixed assets and the reconciliation of this inventory with the fixed asset records and with the prior annual physical inventory. Documentation of the physical inventory should be retained to show compliance with state regulations.

WE RECOMMEND the Office of Governor:

- A. Observe all fixed assets during the annual physical inventory and investigate significant discrepancies between the fixed asset records and the physical inventory.
- B. Prepare an annual statement of changes in fixed assets and account for all acquisitions and dispositions. In addition, fixed asset purchases should be reconciled to the fixed asset records on a periodic basis.
- C. Record accurate and complete descriptions of assets on the property records.
- D. Require an annual physical inventory be conducted for the mansion's fixed assets, and reconciled to the property records. In addition, documentation of the physical inventories should be retained to show compliance with state regulations.

AUDITEE'S RESPONSE

- A. *The Governor's Office currently has in place a tracking system to accurately monitor fixed assets to a data base. The system ensures that no error will occur due to inaccurate inventory lists. Our most recent physical inventory in 6/02, found no discrepancies.*

- B. *The Governor's Office additions and deletions to fixed assets are kept in a binder with each SAMH transaction printout. The printouts have all original shipping and billing information attached. This binder was made available to the State Auditor's Office.*
- C. *We concur. These records now are current and up-to-date.*
- D. *We concur. A physical inventory was delayed due to a computer "crashing" at the mansion. A physical inventory was completed in February 2003.*

3. Mansion Expenditures

The Office of Governor needs to improve the accountability over the functions held at the mansion to ensure public funds are spent appropriately. The mansion's calendar of events and other documentation did not include sufficient information to determine the purpose or the source of funding for the various functions.

Mansion expenditures from the General Revenue Fund-State totaled approximately \$140,800 and \$158,000 in fiscal years 2002 and 2001, respectively. However, these state funds do not include all costs associated with the various functions held in the mansion. Some costs are paid by other entities. For example, liquor is provided by Missouri businesses, flowers may be borrowed from local florists, and entertainment may be donated. Also, other state agencies may pay the costs of the function, or the Missouri Mansion Preservation, Inc. (MMPI) may bear the costs when the function relates to a public event, such as the Christmas open house. In addition, gifts/favors are usually provided by the MMPI or the Hawthorn Foundation. Expenditures from state funds for mansion functions include the salary and fringe benefits of a chef and mansion director, a per diem of \$9 per day per trustee (who serve as waiters and perform other duties), and food costs. During fiscal years 2002 and 2001, food costs totaled approximately \$29,000 and \$48,000, respectively.

The calendar of events and other documentation, maintained by the mansion staff, did not include the purpose of the function (such as official, political, or personal), nor the source of funding for the function (such as MMPI, other state agencies, mansion appropriation, or private/political entities). The calendar only included basic details such as the date/time and type of function (such as tours, receptions, meetings, luncheons/dinners), and sometimes included the type of meal/beverage, entertainment, number of attendees, and type of gifts/flowers.

A complete record should be maintained for mansion functions. In addition to the basic details, the record should include the purpose of the function and the funding source. Without this level of detail, it is impossible to determine if all mansion functions were reasonable, necessary, and prudent uses of public funds.

WE RECOMMEND the Office of Governor ensure that a complete record of all mansion functions is maintained, including the purpose and funding of each function, to provide accountability and assurance that taxpayer monies are spent appropriately.

AUDITEE'S RESPONSE

The Office of the Governor does maintain a complete record of all mansion functions, including the purpose and funding source. We are acutely aware of the importance of accountability and assuring that taxpayer monies are spent appropriately.

The Mansion calendar is a working document for staff. Records relating to financial accountability and funding are reviewed/approved by the Mansion Director and reviewed/maintained by the Director of Operations at the Governor's Office. Further, this documentation is available for review at any time.

AUDITOR'S COMMENT

Although the Office of Governor maintains invoices for mansion expenditures from state funds, these invoices do not constitute adequate and/or complete records of the purpose and funding of all mansion functions. A clear, documented purpose is necessary to ensure public funds are spent appropriately.

This report is intended for the information and use of the management of the Office of Governor and other applicable government officials. However, pursuant to Section 29.270, RSMo 2000, this report is a matter of public record and its distribution is not limited.

STATISTICAL SECTION

History, Organization, and
Statistical Information

OFFICE OF GOVERNOR
HISTORY, ORGANIZATION, AND
STATISTICAL INFORMATION

The supreme executive power of the state is vested in the governor. Unless otherwise provided by law, he appoints members of all boards, commissions, and state government department heads as well as those of several other entities in the state and all vacancies in public offices. He commissions all officers of the state unless otherwise provided by law. Through his capacity as commander-in-chief of the militia, he is the conservator of peace throughout the state.

Providing the state's principal financial administration, the governor presents to the General Assembly a proposed budget for each appropriation period, passes approval on appropriation bills presented to him by the General Assembly, and subsequent to the passage of such bills, may control the rate at which appropriations are expended. He may reduce the appropriations when actual revenues are below the estimated revenues upon which the appropriations were based.

All bills passed by both houses are presented to and considered by the governor where they are signed into law or disapproved and returned to the originating house.

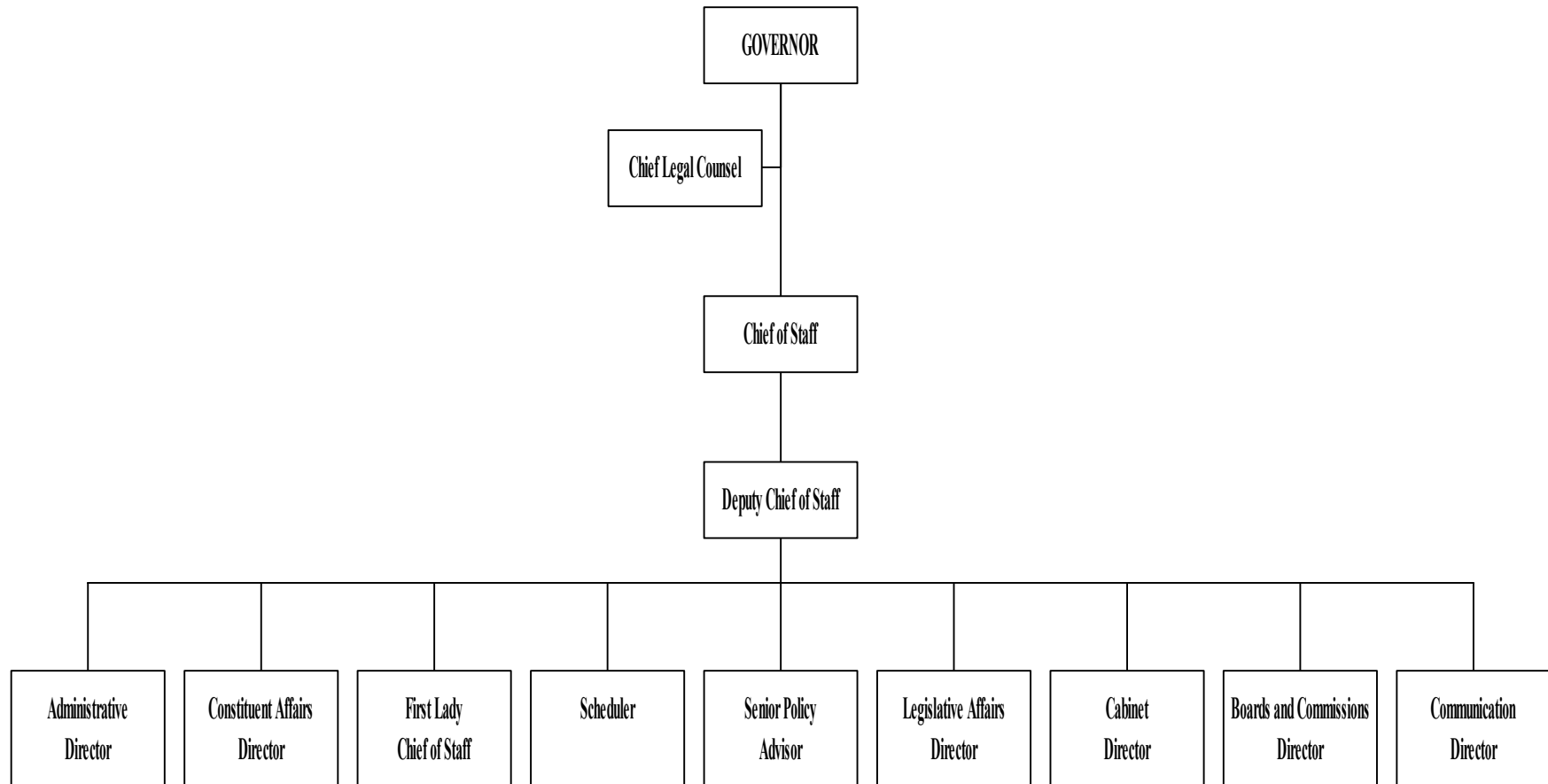
In addition to the duties which are specifically assigned to the governor in the constitution, he has many other duties assigned to him by statute and by custom. The governor is also a member of the Board of Public Buildings and the State Board of Fund Commissioners.

The governor is required to be at least thirty years of age and must have been a citizen of the United States for at least fifteen years and a resident of this state at least ten years prior to election. The governor is elected at the presidential election for a four year term and is subject to re-election. No person may hold the office for more than two terms.

On January 8, 2001, Bob Holden was inaugurated as the state's fifty-third governor. Governor Holden's term expires in January 2005.

At June 30, 2002, the office employed thirty-four personnel. An organization chart for the office follows.

OFFICE OF GOVERNOR
ORGANIZATION CHART
JUNE 30, 2002



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