Claire McCaskill
Missouri State Auditor

March 2005

Office of Governor

Period July 1, 2004 to January 10, 2005, and the Two Years Ended June 30, 2004

Report no. 2005-14

Office Of The
State Auditor Of Missouri
Claire McCaskill

March 2005

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

On January 8, 2001, Bob Holden was inaugurated as the state's fifty-third Governor. His term expired January 10, 2005. On that date, Matt Blunt was inaugurated as the state's fifty-fourth Governor.

The following report of the Office of the Governor reflects audited financial statements dating from July 1, 2004 to January 10, 2005, and the two years ended June 30, 2004.

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YELLOW SHEET

OFFICE OF GOVERNOR

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FINANCIAL SECTION

State Auditor's Reports

CLAIRE C. McCASKILL
Missouri State Auditor

INDEPENDENT AUDITOR'S REPORT ON
THE FINANCIAL STATEMENTS

Honorable Bob Holden
and
Honorable Matt Blunt, Governor
Jefferson City, MO 65102

We have audited the accompanying Statements of Appropriations and Expenditures of the General Revenue Fund-State of the Office of Governor for the period July 1, 2004 to January 10, 2005, and the two years ended June 30, 2004. These financial statements are the responsibility of the office's management. Our responsibility is to express an opinion on these financial statements 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 statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. 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 statements, these financial statements were 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 statements referred to in the first paragraph present fairly, in all material respects, the appropriations and expenditures of the General Revenue Fund-State of the Office of Governor for the period July 1, 2004 to January 10, 2005, and the two years ended June 30, 2004, on the basis of accounting discussed in Note 1.

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In accordance with *Government Auditing Standards*, we also have issued our report dated January 21, 2005, 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements, taken as a whole, that are 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 statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements 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 statements referred to above. Accordingly, we express no opinion on the information.

Claire McCaskill
State Auditor

January 21, 2005 (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:	Norma L. Payne
Audit Staff:	Zeb Tharp
	Ali Arabian

CLAIRE C. McCASKILL
Missouri State Auditor

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

Honorable Bob Holden
and
Honorable Matt Blunt, Governor
Jefferson City, MO 65102

We have audited the financial statements of the Office of Governor for the period July 1, 2004 to January 10, 2005, and the two years ended June 30, 2004, and have issued our report thereon dated January 21, 2005. 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.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements 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 statements 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 caused by error or fraud 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.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements of the Office of Governor are free of material misstatement, we performed tests of the office's compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 or other matters that are required to be reported under *Government Auditing Standards*.

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.

Claire McCaskill
State Auditor

January 21, 2005 (fieldwork completion date)

Financial Statements

Exhibit A-1

OFFICE OF GOVERNOR
STATEMENT OF APPROPRIATIONS AND EXPENDITURES
PERIOD JULY 1, 2004 TO JANUARY 10, 2005

		Appropriations	Expenditures	Encumbrances	Uncommitted Appropriations
GENERAL REVENUE FUND-STATE					
National Guard emergency	$	150,001	116,252	0	33,749
Government Emergency Fund Commission		1	0	0	1
Mansion operating expenses		157,061	79,322	935	76,804
Governor's office		1,869,218	937,105	10,725	921,388
Association dues		150,150	142,950	0	7,200
Total General Revenue Fund-State	$	2,326,431	1,275,629	11,660	1,039,142

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

Exhibit A-2

OFFICE OF GOVERNOR
STATEMENT OF APPROPRIATIONS AND EXPENDITURES
YEAR ENDED JUNE 30, 2004

		Appropriations	Expenditures	Lapsed Balances
GENERAL REVENUE FUND-STATE				
National Guard emergency	$	4,806	4,805	1
Mansion Preservation Advisory Commission		3,000	0	3,000
Government Emergency Fund Commission		1	0	1
Special audits		50,000	41,969	8,031
Mansion operating expenses		169,070	147,573	21,497
Governor's office		1,824,818	1,698,424	126,394
Association dues		150,150	150,050	100
Total General Revenue Fund-State	$	2,201,845	2,042,821	159,024

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

Exhibit A-3

OFFICE OF GOVERNOR
STATEMENT OF APPROPRIATIONS AND EXPENDITURES
YEAR ENDED JUNE 30, 2003

		Appropriations	Expenditures	Lapsed Balances
GENERAL REVENUE FUND-STATE				
National Guard emergency	$	112,000	96,061	15,939
Mansion Preservation Advisory Commission		3,000	0	3,000
Government Emergency Fund Commission		1	0	1
Special audits		30,000	30,000	0
Mansion operating expenses		181,815	140,561	41,254
Governor's office		2,004,166	1,699,204	304,962
Association dues		150,150	150,050	100
Total General Revenue Fund-State	$	2,481,132	2,115,876	365,256

The lapsed balances included the following withholdings made at the Governor's request:

		Year Ended June 30, 2003
General Revenue Fund-State		
Mansion operating expense	$	18,182
Governor's office		188,408
Total	$	206,590

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

Supplementary Data

Schedule 1

OFFICE OF GOVERNOR
COMPARATIVE STATEMENT OF EXPENDITURES (FROM APPROPRIATIONS)

	Year Ended June 30,				
	2004	2003	2002	2001	2000
Governor's office:					
Salaries and wages	$ 1,512,081	1,463,525	1,360,435	1,545,926	1,580,997
Travel, in-state	53,789	75,208	76,061	106,019	79,167
Travel, out-of-state	2,680	9,503	10,262	9,918	19,826
Supplies	26,214	48,081	42,979	36,766	31,168
Professional development	2,500	2,995	2,127	2,320	8,746
Communication service and supplies	52,499	49,641	54,414	53,266	45,173
Services:					
Business	0	0	0	50,486	14,286
Professional	26,481	17,195	38,990	12,609	21,627
Maintenance and repair	17,183	16,740	22,289	0	0
Equipment maintenance and repair	0	0	0	25,408	24,702
Transportation maintenance and repair	0	0	0	494	0
Computer equipment	1,462	12,751	444	5,149	21,488
Electronic and photographic equipment	0	0	0	1,272	1,485
Motorized equipment	592	0	0	0	0
Office equipment	814	435	939	108	1,032
Other equipment	0	65	623	0	0
Specific use equipment	0	0	0	0	147
Real property rentals and leases	0	0	65	0	0
Equipment rentals and leases	769	1,699	2,166	0	0
Building and equipment rentals	0	0	0	723	1,558
Relocation costs/employee	0	0	3,480	0	6,982
Agency provided food	1,141	1,266	1,951	2,954	4,956
Miscellaneous expenses	219	100	450	18,364	1,625
Total office expenditures	1,698,424	1,699,204	1,617,675	1,871,782	1,864,965

Schedule 1

OFFICE OF GOVERNOR
COMPARATIVE STATEMENT OF EXPENDITURES (FROM APPROPRIATIONS)

	Year Ended June 30,				
	2004	2003	2002	2001	2000
Mansion operating:					
Salaries and wages	91,279	90,588	91,841	89,284	99,180
Travel, in-state	0	18	0	0	553
Supplies	9,956	8,150	8,002	9,595	11,567
Professional development	0	0	0	755	2,617
Communication service and supplies	5,539	4,656	5,976	3,891	6,862
Services:					
Business	0	0	0	5,460	3,734
Professional	5,393	4,928	4,095	368	1,875
Maintenance and repair	2,898	3,796	1,615	0	0
Equipment maintenance and repair	0	0	0	422	675
Computer equipment	50	0	0	20	0
Motorized equipment	0	0	0	0	1,406
Office equipment	0	0	144	0	1,956
Other equipment	0	0	126	0	0
Specific use equipment	0	0	0	275	362
Equipment rentals and leases	0	0	135	0	0
Building and equipment rentals	0	0	0	36	2,060
Agency provided food	31,995	28,297	28,513	47,712	56,083
Miscellaneous expenses	463	128	320	206	167
Total mansion expenditures	147,573	140,561	140,767	158,024	189,097
National Guard emergency	4,805	96,061	51,520	19,696	14,265
Special audits	41,969	30,000	58,125	8,980	51,225
Association dues	150,050	150,050	144,650	139,450	133,250
Total	$ 2,042,821	2,115,876	2,012,737	2,197,932	2,252,802

Note: Certain classifications of expenditures changed during the five-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 CAPITAL ASSETS

		Furniture and Equipment	Motor Vehicles	Total
Office:				
Balance, July 1, 2002	$	394,706	1,500	396,206
Additions		5,947	0	5,947
Dispositions		0	0	0
Balance, June 30, 2003		400,653	1,500	402,153
Additions		1,058	592	1,650
Dispositions		(77,657)	(1,500)	(79,157)
Balance, June 30, 2004		324,054	592	324,646
Additions		0	0	0
Dispositions		(1,968)	0	(1,968)
Balance, January 10, 2005		322,086	592	322,678
Mansion:				
Balance, July 1, 2002		175,926	0	175,926
Additions		0	0	0
Dispositions		0	0	0
Balance, June 30, 2003		175,926	0	175,926
Additions		500	0	500
Dispositions		(16,022)	0	(16,022)
Balance, June 30, 2004		160,404	0	160,404
Additions		0	0	0
Dispositions		0	0	0
Balance, January 10, 2005		160,404	0	160,404
Total General Capital Assets	$	482,490	592	483,082

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

Notes to the Financial Statements and Supplementary Data

Notes to the Financial Statements:

1. Summary of Significant Accounting Policies

A. Reporting Entity and Basis of Presentation

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

Appropriations, presented in the Exhibits, are not separate accounting entities. They do not record the assets, liabilities, and equity or other balances 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 Statements of Appropriations and Expenditures, Exhibit A, are presented on the state's legal budgetary basis of accounting. 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. For the period ended January 10, 2005, expenditures include amounts payable at January 10, 2005, including payroll earned through December 31, 2004, for all employees, plus the final payroll and accrued annual leave amounts payable to all employees terminating on January 10, 2005. Encumbered amounts are reported as encumbrances.

However, the General Assembly may authorize continuous (biennial) appropriations, for which the unexpended balances at June 30 of the first year of the 2-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 state contribution for each employee who participates in the deferred compensation plan and has been employed by the state for at least 1 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 statements at Exhibit A.

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.

3. Uncommitted Appropriations—Fiscal Year 2005

The amounts presented as uncommitted appropriations represent appropriations not yet spent or committed at January 10, 2005.

Note to the Supplementary Data:

4. <u>General Capital Assets</u>

General capital assets are recorded at cost in the general capital assets account. General capital assets are depreciated on a straight-line basis using various useful life classifications and a salvage value of zero. Accumulated depreciation on general capital assets at January 10, 2005, June 30, 2004, and June 30, 2003 was approximately $315,000, $313,800 and $382,600, respectively.

General capital assets for the mansion are not reported on the SAM II; therefore, are not depreciated. The Office of Administration, Division of Facilities Management purchases capital 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 over $10,000 at June 30, 2004.

MANAGEMENT ADVISORY REPORT SECTION

Follow-Up on Prior Audit Findings

OFFICE OF THE GOVERNOR
FOLLOW-UP ON PRIOR AUDIT FINDINGS

In accordance with *Government Auditing Standards,* this section reports the auditor's follow-up on action taken by the Office of Governor, on findings in the Management Advisory Report (MAR) of our prior audit report issued for the two years ended June 30, 2002. Although unimplemented recommendations are not repeated, the office should consider implementing those recommendations.

1. Operating Costs from Other Appropriations

   A. Various employees were budgeted to and paid from appropriations of other state agencies. Some individuals were fully paid from appropriations of the Office of Administration (OA), while other individuals were paid partially by other state agencies, with the remainder being paid by the Governor's office. 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.

   B. The costs of some of the Governor's plane flights were supplemented by appropriations of other state agencies. From January to May, 2001, the Governor's office paid 95 percent of the flight costs, and two other state agencies paid the remaining costs. From June to December 2001, the Governor's office paid 59 percent of the flight costs, and 12 other state agencies either fully paid the costs or split the costs.

   Recommendation:

   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.

   Status:

   Partially implemented. Effective September 2003, the office discontinued splitting the salaries of employees with other state agencies. However, OA continued to pay the salaries of seven employees in fiscal years 2005 and 2004, and nine employees in fiscal year 2003. The payroll costs paid by OA totaled approximately $174,000 and $180,000 in fiscal years 2004 and 2003, respectively. In addition, for the period July 2002 to October 2004, there were 166 flights, costing over $126,000, taken by the Governor's office. The costs of 5 flights were split with other state agencies. These agencies paid approximately $3,300 for their share of the flights. Although not repeated in the current MAR, our recommendation remains as stated above.

2. Fixed Assets

A. Office personnel did not always observe all fixed assets during physical inventories.

B. An annual statement of changes in fixed assets was not prepared. In addition, a complete list of all additions and dispositions was not maintained, and fixed asset purchases were not reconciled to property additions on a periodic basis.

C. Fixed asset records did not always include complete descriptions, accurate locations, and model and serial numbers where applicable.

D. A physical inventory of the mansion's fixed assets was not conducted since December 2000.

Recommendations:

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 annual 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.

Status:

Implemented.

3. Mansion Expenditures

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.

Recommendation:

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.

Status:

Partially implemented. Currently, the purpose and source of funding for each mansion function is recorded on the mansion's electronic calendar of events. However, the total cost is not accumulated for each event. Although not repeated in the current MAR, our recommendation remains as stated above.

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. His term expired on January 10, 2005. On that date, Matt Blunt was inaugurated as the state's fifty-fourth Governor.

At January 10, 2005, the office employed twenty-six personnel. An organization chart for the office follows.

OFFICE OF GOVERNOR
ORGANIZATION CHART
JANUARY 10, 2005