OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

Management Letter

Department of Administration

Fiscal Year Ended June 30, 2000

JANUARY 5, 2001

01-01

Financial Audit Division

The Office of the Legislative Auditor (OLA) is a professional, nonpartisan office in the legislative branch of Minnesota State government. Its principal responsibility is to audit and evaluate the agencies and programs of state government (the State Auditor audits local governments).

OLA's Financial Audit Division annually audits the state's financial statements and, on a rotating schedule, audits agencies in the executive and judicial branches of state government, three metropolitan agencies, and several "semi-state" organizations. The division also investigates allegations that state resources have been used inappropriately.

The division has a staff of approximately fifty auditors, most of whom are CPAs. The division conducts audits in accordance with standards established by the American Institute of Certified Public Accountants and the Comptroller General of the United States.

Consistent with OLA's mission, the Financial Audit Division works to:

- Promote Accountability,
- Strengthen Legislative Oversight, and
- Support Good Financial Management.

Through its Program Evaluation Division, OLA conducts several evaluations each year and one best practices review.

OLA is under the direction of the Legislative Auditor, who is appointed for a six-year term by the Legislative Audit Commission (LAC). The LAC is a bipartisan commission of Representatives and Senators. It annually selects topics for the Program Evaluation Division, but is generally not involved in scheduling financial audits.

All findings, conclusions, and recommendations in reports issued by the Office of the Legislative Auditor are solely the responsibility of the office and may not reflect the views of the LAC, its individual members, or other members of the Minnesota Legislature.

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All OLA reports are available at our Web Site: http://www.auditor.leg.state.mn.us

If you have comments about our work, or you want to suggest an audit, investigation, evaluation, or best practices review, please contact us at 651-296-4708 or by e-mail at auditor@state.mn.us

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Audit Participation

The following members of the Office of the Legislative Auditor prepared this report:

Claudia Gudvangen, CPA	Deputy Legislative Auditor
Jeanine Leifeld, CPA, CISA	Audit Manager
Laura Peterson, CPA	Auditor-in-Charge
Crystal Eskridge	Senior Auditor
John Hakes, CPA	Senior Auditor
April Synder	Senior Auditor
Eric Roggeman	Senior Auditor
Amanda Voltz	Intern

Exit Conference

We discussed the findings and recommendations in this report with the following staff of the Department of Administration on December 19, 2000:

David Fisher	Commissioner
Kirsten Cecil	Deputy Commissioner
Kath Ouska	Assistant Commissioner, Facility Management
Kent Allin	Assistant Commissioner, Operations Management Bureau
Jack Yarbrough	Assistant Commissioner, InterTechnologies Group
Regenia David	Assistant Commissioner, Office of Technologies
Larry Freund	Director, Financial Management and Reporting
Julie Poser	Accounting Director, Financial Management and Reporting
Bob Olsen	Chief Information Officer
Judy Plante	Director, Management Analysis Division
Terry Thompson	Director, Communications
Marcia Hansen	Executive Assistant

Department of Administration

Report Summary

Key Findings and Recommendations:

- The Risk Management Division did not ensure the accuracy of its outstanding claims payable. The Risk Management Division should develop procedures to ensure it closes out outstanding claims once the claims are paid or resolved.

- The Materials Management Division did not have a system in place to accurately track cooperative purchasing administrative fees. The Materials Management Division should develop a system to accurately record and track outstanding pharmaceutical contract administrative fees.

Management letters address internal control weaknesses and noncompliance issues found during our annual audit of the state's financial statements and federally-funded programs. The scope of work in individual agencies is limited. During the fiscal year 2000 audit, our work at the Department of Administration focused on selected components of the state's Internal Services Funds and selected building construction projects. The department's response to our recommendations is included in the report.

Representative Dan McElroy, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. David Fisher, Commissioner
Department of Administration

We have performed certain audit procedures at the Department of Administration as part of our audit of the financial statements of the State of Minnesota as of and for the year ended June 30, 2000. We have also reviewed certain department procedures related to the state's compliance with the requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to the department for the year ended June 30, 2000. We emphasize that this has not been a comprehensive audit of the Department of Administration.

Table 1-1 identifies the financial activities within the Department of Administration that were material to the state's financial statements. We performed certain audit procedures on these activities as part of our objective to obtain reasonable assurance about whether the State of Minnesota's financial statements for the year ended June 30, 2000, were free of material misstatements.

Table 1-1
Activities Material to the State's Financial Statements
Fiscal Year 2000

Revenue Areas	
InterTechnologies Fund service fee revenue	$72,935,000
Plant Management Fund lease revenue	35,554,000
Travel Management Fund vehicle rental revenue	8,802,000
Central Stores Fund sales revenue	7,686,000
PrintCommunication Fund sales revenue	6,105,000
Risk Management Fund insurance revenue	7,043,000
Expenses/Expenditures	
Building Construction Division expenditures (1)	$28,546,000
InterTechnologies Fund:	
Purchase Services	42,353,000
Depreciation (2)	6,875,000
Plant Management Fund purchase services	10,253,000
Central Stores Fund cost of goods sold	6,038,000
PrintCommunication Fund cost of goods sold	4,821,000
Travel Management Fund vehicle depreciation (2)	4,780,000
Risk Management Fund claims expense	2,420,000

(1) Selected projects.
(2) Our audit scope also included the InterTechnologies Fund and Travel Management Fund fixed asset balances at June 30, 2000. Those net fixed asset balances were $11,769,000 and $16,959,000, respectively.

Source: State of Minnesota Comprehensive Annual Financial Report for the year ended June 30, 2000.

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We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Conclusion

Our December 1, 2000, report included an unqualified opinion of the State of Minnesota's general purpose financial statements included in its Comprehensive Annual Financial Report for the year ended June 30, 2000. In accordance with *Government Auditing Standards*, we also issued our report, dated December 1, 2000, on our consideration of the State of Minnesota's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. At a later date, we will issue our report on compliance with requirements applicable to each major federal program and internal control over compliance in accordance with OMB A-133.

As a result of our audit procedures, we identified the following weaknesses in internal control at the Department of Administration:

1. The Risk Management Division did not ensure the accuracy of its liability for outstanding claims.

The Risk Management Division did not ensure the accuracy of its outstanding claims payable. The division operates the state's risk and insurance management program, which enables state agencies to protect their assets by minimizing their exposure to financial loss and providing the most economical funding alternatives. We found the division did not consistently close out outstanding claims in its claim and underwriting system once it paid or resolved a claim. This resulted in the June 30, 2000, outstanding claims payable being overstated $191,885. The Risk Management Fund's adjusted June 30, 2000, claims payable, excluding incurred-but-not-reported claims, was $2.7 million. In addition to overstating the claims payable, the risk of paying a claim twice increases when the division does not close out a claim when resolved.

Recommendation

- *The Risk Management Division should develop procedures to ensure it closes out outstanding claims once the claims are paid or resolved.*

2. The Materials Management Division did not have a system in place to accurately track Cooperative Purchasing administrative fees.

The Materials Management Division estimated the amount of pharmaceutical contract accounts receivable it recorded in the Cooperative Purchasing (part of the Enterprise Activities) Fund for the year ended June 30, 2000. As part of the cooperative purchasing program, pharmaceutical manufacturers pay an administrative fee based on the contract prescription drug usage of the cooperative's 36 members.

Department of Administration

The cooperative purchasing program did not have an automated system to track contract drug usage by member and determine outstanding administrative fees by pharmaceutical manufacturer. The cooperative purchasing program staff kept a spreadsheet by fiscal year of incoming receipts from manufacturers. The staff pharmacist estimated the $1.26 million receivable based on a review of the major manufacturer's historic payments trends as recorded on the spreadsheets. Without a detailed automated tracking system, the division cannot efficiently analyze outstanding administrative fees and ensure that it collects appropriate amounts due.

Recommendation

- *The Materials Management Division should develop a system to accurately record and track outstanding pharmaceutical contract administrative fees.*

This report is intended for the information of the Legislative Audit Commission and the management of the Department of Administration. This restriction is not intended to limit the distribution of this report, which was released as a public document on January 5, 2001.

/s/ James R. Nobles

James R. Nobles
Legislative Auditor

/s/ Claudia J. Gudvangen

Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

End of Fieldwork: December 1, 2000

Report Signed On: January 2, 2001

Status of Prior Audit Issues
As of December 1, 2000

February 24, 2000, Legislative Audit Report 00-03 examined the Department of Administration's activities and programs material to the State of Minnesota's general purpose financial statements for the year ended June 30, 1999. The report contained five findings. The Department of Administration resolved all of these findings.

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, any quasi-state organizations, such as metropolitan agencies or the State Agricultural Society, the state constitutional officers, or the judicial branch.

Admin MINNESOTA Department of Administration

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December 22, 2000

James R Nobles, Legislative Auditor
First Floor South, Centennial Building
658 Cedar Street
St. Paul, MN 55155

Thank you for the opportunity to discuss with your staff the results of the statewide financial audit of selected programs of the Department of Administration for the year ended June 30, 2000.

This represents our comments on the audit, as to each finding and recommendation contained in the report. They include descriptions of our plans to ensure the integrity of financial data and compliance with pertinent laws.

1. **Audit Finding: The Risk Management Division did not ensure the accuracy of its liability for outstanding claims.**

Resolution

Risk Management developed an internal procedure effective November 1, 2000, to ensure the accuracy of it liabilities for outstanding claims. Specifically, (1) no claims may be filed as closed until the RiskMaster reserve has been reduced to zero, (2) payments in MAPS now require division staff to make corresponding adjustments to RiskMaster reserve levels, and (3) semi-annual audits by the Claims Manager will verify appropriate reserves for all open claims prior to the preparation of financial reports.

Person Responsible: Fred Johnson, Risk Management Director

2. **Audit Finding: The Materials Management Division did not have a system in place to accurately track Cooperative Purchasing administrative fees.**

Resolution

Materials Management will enhance an existing automated system to track pharmaceutical administrative fees. Enhancements will include aging reports and other reports that will assist in analyzing historical data for estimating outstanding pharmaceutical administrative fees. The projected implementation date for the automated system is February 2001.

Person Responsible: Paul Stembler, Materials Management Division Assistant Director

Very truly yours,

/s/ David F. Fisher

David F. Fisher
Commissioner