Department of Administration
Statewide Audit — Selected Audit Areas

For the Year Ended June 30, 1998

January 1999

Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

99-1

Centennial Office Building, Saint Paul, MN 55155 ● 651/296-4708

SUMMARY

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Department of Administration
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For the Year Ended June 30, 1998

Public Release Date: January 8, 1999 No. 99-1

Background Information

The Department of Administration provides a variety of business management and administrative services to state and local government agencies. Its major programmatic areas include the InterTechnologies Group, the Operations Management Bureau, the Facilities Management Bureau, and the Technology Management Bureau. The department's funding sources include user fees, legislative appropriations, gifts, and federal grants. Ms. Elaine Hansen was the commissioner of the department during the audit period.

Selected Audit Areas and Conclusions

Our audit scope was limited to those activities material to the State of Minnesota's Comprehensive Annual Financial Report for the year ended June 30, 1998. Our primary audit objective was to render an opinion on the State of Minnesota's financial statements. Our scope within the Department of Administration included InterTechnologies Fund sales revenues, purchased services expenditures, and fixed assets; Central Stores Fund sales revenues and cost of goods sold; PrintComm Fund sales revenue and cost of goods sold; Travel Management vehicle rental revenue and motor vehicles; Plant Management Fund lease revenue and purchased services expenditures; Risk Management Fund insurance revenue; and selected Building Construction Division project expenditures.

We qualified our report, dated December 1, 1998, on the State of Minnesota's Comprehensive Annual Financial Report because insufficient audit evidence exists to support the State of Minnesota's disclosures with respect to the year 2000. Similarly, we do not provide assurance that the Department of Administration is or will be year 2000 ready, that its year 2000 remediation efforts will be successful in whole or in part, or that parties with which the Department of Administration does business will be year 2000 ready.

For the areas audited, the Department of Administration's financial activities were fairly presented in the State of Minnesota's Comprehensive Annual Financial Report for the year ended June 30, 1998. As a result of our audit procedures, we identified one weakness in internal control and one instance of noncompliance with federal requirements, as follows:

- The department made duplicate payments for certain printing jobs.
- The department did not require federal certifications from vendors receiving awards for more than $100,000.

Table of Contents

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
Pat Ryan	Auditor-in-Charge
Steve Johnson, CPA	Senior Auditor
Chege Ngigi	Senior Auditor
Charlie Klein	Auditor

Exit Conference

The findings and recommendations in this report were discussed with the following officials of the Department of Administration at an exit conference held on December 22, 1998:

Elaine Hansen	Commissioner
Scott Simmons	Deputy Commissioner
Kent Allin	Assistant Commissioner for Operations Management
Beverly Schuft	Assistant Commissioner for Intertech – Technology Management Bureau
Larry Freund	Director of Financial Management
Judy Hunt	Internal Auditor

Senator Deanna Wiener, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Ms. Elaine S. Hansen, 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, 1998. We also have 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, 1998. 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, 1998, were free of material misstatement.

Table 1-1
Activities Material to the State's Financial Statements
Fiscal Year 1998

Revenue Areas	Amount
InterTechnologies Fund sales revenue	$70,528,879
Plant Management lease revenue	27,362,542
Central Stores Fund sales revenue	6,954,084
PrintComm Fund sales revenue	5,770,271
Risk Management Fund insurance revenue	6,535,209
Travel Management vehicle rental revenue	7,916,035
Expense/Expenditure Areas	
InterTechnologies Fund:	
Purchased services	$38,431,111
Depreciation **(2)**	10,057,585
Plant Management Fund purchased services	8,664,243
Central Stores Fund cost of goods sold	5,888,711
Travel Management Fund vehicle depreciation **(2)**	4,176,646
PrintComm Fund cost of goods sold	4,623,746
Building Construction Division expenditures **(1)**	125,479,155

(1) Selected projects
(2) Our audit scope also included the InterTechnologies Fund and Travel Management Fund fixed asset balances at June 30, 1998. Those net fixed asset balances were $15,280,000 and $14,555,000, respectively.

Source: State of Minnesota Comprehensive Annual Financial Report for the year ended June 30, 1998.

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.

Conclusions

We qualified our report dated December 1, 1998, on the State of Minnesota's Comprehensive Annual Financial Report, because of uncertainties about the potentially adverse effect the year 2000 computer issue may have on state operations. Information technology experts believe that many computer applications in private businesses and government may fail as a result of data integrity problems and erroneous calculations beyond December 31, 1999. Insufficient audit evidence exists to support the State of Minnesota's disclosures with respect to the year 2000 issue. Because of the unprecedented nature of the year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter.

Similarly, we do not provide assurance that the Department of Administration is or will be year 2000 ready, that its year 2000 remediation efforts will be successful in whole or in part, or that parties with which the Department of Administration does business will be year 2000 ready.

In accordance with *Government Auditing Standards*, we have also issued our report, dated December 1, 1998, 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, regulation, 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 Circular A-133.

For the areas audited, the Department of Administration's financial activities were fairly presented in the State of Minnesota's Comprehensive Annual Financial Report for the year ended June 30, 1998. However, as a result of our audit procedures, we identified the following weakness in internal control and an instance of noncompliance with federal requirements at the Department of Administration:

1. The department made duplicate payments for certain printing jobs.

PrintComm did not have adequate controls over invoices relating to certain of its printing jobs. The PrintComm section of Administration's Communications.Media Division runs the state's print shop and three copy centers. During fiscal year 1998, PrintComm and the Department of Corrections - Correctional Industries (MINNCOR) established a business relationship whereby PrintComm directed certain printing jobs to MINNCOR. As part of the agreement, PrintComm was responsible for invoicing customers for the jobs assigned to MINNCOR and for paying MINNCOR for these jobs.

PrintComm paid both MINNCOR and private printing companies for the same printing jobs. MINNCOR accepted some printing jobs from PrintComm and later, due to problems with its printing presses, was unable to perform the work. MINNCOR contracted with private printing companies to perform the work. PrintComm paid the private printing companies for these jobs, but also reimbursed MINNCOR for the same printing jobs. These overpayments amounted to about $146,000. PrintComm discovered the duplicate payments and worked with MINNCOR to resolve the issue. In September 1998, MINNCOR reimbursed PrintComm for the cost of these printing jobs.

Recommendation

- *PrintComm should develop controls to ensure that double payments do not occur.*

2. The department did not require federal certifications from vendors receiving awards for more than $100,000.

The Materials Management Division of the Department of Administration did not obtain written certifications to verify that state vendors had not been federally suspended or debarred before awarding contracts. The Material Management Division has statewide responsibility for procurement, as well as professional/technical services contracting. The division was periodically reviewing the federal list of suspended and debarred contractors and comparing it to the state's vendor file. However, the division was not requiring vendors to certify that their organization and its principals had not been suspended or debarred from receiving federal funds. The federal government's "Governmentwide Common Rule for Nonprocurement Debarment and Suspension" requires these certifications from all vendors awarded contracts for goods or services using federal funds in excess of $100,000.

Recommendation

- *The department should require that vendors receiving federal funds in excess of $100,000 certify that they are not suspended or debarred by the federal government.*

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 8, 1999.

James R. Nobles
Legislative Auditor

Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

End of Fieldwork: November 20, 1998

Report Signed On: January 4, 1999

Status of Prior Audit Issues
As of November 20, 1998

February 13, 1998, Legislative Audit Report 98-7 examined the Department of Administration's activities and programs material to the State of Minnesota's Annual Financial Report for the year ended June 30, 1997. The report contained no findings or recommendations.

State of Minnesota Audit Follow-Up Process

The Department of Finance, on behalf of the Governor, maintains a quarterly process for following up 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 and quasi-state organizations, such as the 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 29, 1998

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

Dear Mr. Nobles:

Thank you for the opportunity to review the results of your financial audit of selected Admin programs and to respond to your two findings.

Although we agree with the facts as stated in your finding that "the department made duplicate payments for certain printing jobs," we believe it is important to note in greater detail that Admin's Comm.Media staff are the ones who discovered, reported and solved the problem. When press problems at the Moose Lake Correctional Facility required jobs to be sent to outside vendors, Comm.Media staff continued to process the bills in the normal fashion--paying the vendor, invoicing the customer and remitting the proceeds to MINNCOR. This problem occurred primarily during the fourth quarter, affected approximately a dozen jobs and amounted to about $146,000. It is also important to note that 80 percent of this revenue was attributed to four jobs with 59 percent attributed to a single job.

During the routine review of work at the end of the fiscal year, the error was discovered and was quickly corrected. As soon as the error was discovered, Comm.Media staff notified both MINNCOR and your office. The amounts were verified and payment arrangements were made. All of this occurred before fourth quarter and year-end financial statements were finalized. In addition, a new processing procedure for this type of work went into effect September 1--all 'pass through' work is now ordered and paid for directly by MINNCOR. In addition, all work to be sent to Corrections is now color coded to prevent confusion.

We also agree with your finding that "the department did not require federal certifications from vendors receiving awards for more than $100,000." However, we do wish to emphasize that the specific federal guideline governing this procurement process is found in its document entitled "Governmentwide Common Rule for <u>Nonprocurement</u> Debarment and Suspension" (emphasis added), and that we have an alternative method in place that has proven sufficient to prevent inadvertently doing business with a federally debarred vendor.

The Materials Management Division (MMD) has routinely reviewed the *List of Parties Excluded from Federal Procurement and Nonprocurement Programs* to determine if any of the state's vendors were debarred or suspended as directed by Executive Order 12549 and described in the 1995 *Grants Management Advisory Services Handbook.* Minnesota Rules, Chapter 1230, provides that vendors who are debarred by any other government entity are not "responsible bidders" and further provides that the terms and limits of any federal debarment are automatically effective in doing business with MMD.

The majority of purchasing transactions handled by the Materials Management Division are contracts for statewide use, and there is no way to ascertain if any agency will ultimately order goods or services using federal funds at the particular dollar threshold, from a statewide contract. However, the division will now include the required certification language in all solicitations and requests for proposals, regardless of the estimated dollar amount. In addition, division staff will continue to check the *List of Parties Excluded from Federal Procurement and Nonprocurement Programs* monthly to compare newly suspended or debarred parties against the state's vendor lists.

I trust that you will be fully satisfied with these corrective actions. Please contact me if you require any further clarification.

Sincerely,

Elaine S. Hansen
Commissioner