



FINANCIAL AUDIT DIVISION REPORT

**Office of Enterprise Technology
Internal Control and Compliance Audit
July 1, 2006, through April 30, 2009**

November 13, 2009

Report 09-35

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OFFICE OF THE LEGISLATIVE AUDITOR

State of Minnesota • James Nobles, Legislative Auditor

November 13, 2009

Senator Ann H. Rest, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. Gopal Khanna, Chief Information Officer
Office of Enterprise Technology

This report presents the results of our internal control and compliance audit over selected financial activity at the Office of Enterprise Technology for the period July 1, 2006, through April 30, 2009. During the audit, we reviewed the Office of Enterprise Technology's computing and telecommunication services revenues, payroll, computer and system services and communication expenses, and equipment.

We discussed the results of the audit with the Office of Enterprise Technology's staff on November 2, 2009. The audit was conducted by Jim Riebe, CPA (Audit Manager) and Laura Wilson, CPA, CISA (Auditor-in-Charge), assisted by auditors Mark Allan, CPA, Jerry Foyt, Jamie Majerus, and Kathy Rootham.

This report is intended for the information and use of the Legislative Audit Commission and the management of the Office of Enterprise Technology. This restriction is not intended to limit the distribution of this report, which was released as a public document on November 13, 2009.

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

/s/ James R. Nobles

James R. Nobles
Legislative Auditor

/s/ Cecile M. Ferkul

Cecile M. Ferkul, CPA, CISA
Deputy Legislative Auditor

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Report Summary

Conclusions

Except for equipment, the Office of Enterprise Technology generally had adequate internal controls to ensure that it safeguarded its financial assets, complied with finance-related legal requirements and produced reliable financial data. The office's controls over equipment were not adequate due to several weaknesses.

Except as noted in this report, the office generally complied with finance-related legal requirements over its financial activities for the items tested.

Key Findings

- The Office of Enterprise Technology did not adequately assess its business risks or monitor the effectiveness of its internal controls, as required by state policy. ([Finding 1, page 7](#))
- The Office of Enterprise Technology lacked effective controls over equipment and did not accurately track equipment in its inventory records. ([Finding 2, page 7](#))
- The Office of Enterprise Technology allowed some employees to have incompatible and unnecessary access to the state's accounting and payroll systems and the office's accounts receivable subsystem. ([Finding 3, page 10](#))
- The Office of Enterprise Technology did not ensure key procedures were performed to assure the accuracy of its payroll transactions. ([Finding 4, page 11](#))
- The Office of Enterprise Technology did not adequately safeguard its receipts. ([Finding 5, page 13](#))
- The Office of Enterprise Technology did not adequately segregate responsibilities for payments made outside the regular state payment process. ([Finding 7, page 14](#))

Audit Objectives and Scope

Objectives

- Internal controls
- Compliance

Period Audited

July 1, 2006, through April 30, 2009

Programs Audited

• Computing and telecommunication services revenues	• Computer and system services and communication expenses
• Payroll expenses	• Equipment

Office of Enterprise Technology

Office Overview

The Office of Enterprise Technology operates under *Minnesota Statutes*, Chapter 16E. These statutes direct the office to provide oversight, leadership, and direction for information and telecommunications technology policy and the management, delivery, and security of information and telecommunications technology systems and services in Minnesota.¹ The Legislature created the Office of Enterprise Technology in 2005 by combining two units of the Department of Administration - the Minnesota Office of Technology and the InterTechnologies Group - into a cabinet-level agency led by the state chief information officer. The office provides technical services to both state agencies and nonstate entities (local governments and nonprofit organizations). The chief information officer during our audit period was Gopal Khanna.

The office uses several state funds to account for its financial operations, including the enterprise technology,² general, master lease,³ and special revenue funds. The majority of the office's revenues (91 percent) and expenses (84 percent) are accounted for in the Enterprise Technology Fund. In fiscal year 2008, the office received several special appropriations, including funds for an electronic licensing system (\$7.5 million), small agency technical assistance projects (\$1 million), and grants to be distributed to counties participating in the development of an integrated financial system (\$180,000).⁴ Table 1 summarizes the office's total revenue and expenses for fiscal years 2007 and 2008.

¹ *Minnesota Statutes* 2008, 16E.01, subd 1a.

² The Enterprise Technologies Fund is an internal service fund that accounts for the operation of statewide communication and information systems.

³ The Master Lease Fund is an internal service fund used to purchase equipment for the state's other internal service funds.

⁴ *Laws of Minnesota* 2007, Chapter 148, Article 1, Sec 10.

Table 1
Revenue and Expenses
By Budget Fiscal Years¹

	2007	2008
Revenue:		
Telecommunication Services	\$35,252,243	\$33,648,207
Computing Services	41,132,530	47,743,513
Master Lease	2,932,290	5,867,595
Information and Telecommunication Charges ²	6,827,146	1,781,788
Other Revenue	<u>747,577</u>	<u>1,018,709</u>
Total Revenue	<u><u>\$86,891,786</u></u>	<u><u>\$90,059,812</u></u>
Expenses:		
Payroll	\$27,696,876	\$30,693,844
Communications	20,718,563	21,970,855
Computer and System Services	17,490,717	16,230,307
Equipment ³	6,446,770	9,586,163
Refund to Federal Government ⁴	2,497,071	2,392,570
Other Expenses	<u>13,429,581</u>	<u>14,812,998</u>
Total Expenses	<u><u>\$88,279,578</u></u>	<u><u>\$95,686,737</u></u>

1 In addition to the amounts shown above, we reviewed portions of the office's financial activity in fiscal year 2009 through April 30, 2009. As of April 30, 2009, the office collected \$62 million and disbursed \$75 million in fiscal year 2009.

2 The 2006 Legislature established a new information and telecommunication account in the special revenue fund to fund an initiative on government efficiencies. (See *Laws of Minnesota* 2006, Chapter 282, Article 14, Sec. 9.) In fiscal year 2007, the first year of the program, many state agencies contributed funds for multi-year projects, which resulted in the 2007 revenues being considerably higher than those in 2008.

3 The increase in the equipment expenses between 2007 and 2008 is primarily due to a mainframe upgrade and one-time equipment purchase to help meet customer needs.

4 The Office of Enterprise Technology reimbursed the federal government because its cash reserves exceeded the reserve amount the U.S. Office of Management and Budget considers reasonable; it limits a working capital reserve up to 60 days cash expenses for normal operating purposes. (Office of Management and Budget Circular A87– Attachment C – G2.)

Source: Minnesota Accounting and Procurement System.

Objectives, Scope, and Methodology

Our selected scope audit included the Office of Enterprise Technology's computing and telecommunication services revenue, payroll, communications, computer and system services expenses, and equipment. Our audit of these areas focused on the following objectives for the period July 1, 2006, through April 30, 2009:

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

- For the items tested, did the office comply with finance-related legal requirements, including state laws, regulations, contracts, and applicable policies and procedures?

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

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

We used the guidance contained in Internal Control-Integrated Framework, published by the Committee of Sponsoring Organizations of the Treadway Commission, as our criteria to evaluate office controls.⁵ We also used state policies and procedures established by the departments of Minnesota Management and Budget and Administration as well as the office's internal policies and procedures as evaluation criteria.

Conclusions

Except for equipment, the Office of Enterprise Technology generally had adequate internal controls to ensure that it safeguarded its financial assets, complied with finance-related legal requirements, and produced reliable financial data. The office's controls over equipment were not adequate due to several weaknesses.

Except for the items noted in this report, the office generally complied with finance-related legal requirements over its financial activities for the items tested.

The following *Findings and Recommendations* further explain the exceptions noted above.

⁵ The Treadway Commission and its Committee of Sponsoring Organizations were established in the mid-1980s by the major national associations of accountants. One of their primary tasks was to identify the components of internal control that organizations should have in place to prevent inappropriate financial activity.

Findings and Recommendations

The Office of Enterprise Technology did not adequately assess its business risks or monitor the effectiveness of its internal controls, as required by state policy.

The office had not comprehensively assessed its risks related to safeguarding assets, accurately recording financial activity in the state's accounting records, and complying with finance-related legal requirements. In addition, the office did not have a comprehensive plan to monitor the effectiveness of its internal controls. Findings 2 through 8 identify specific deficiencies in the office's internal controls. Had the office developed and implemented procedures to assess risks and monitor the effectiveness of its internal controls over time, it could have identified and corrected these deficiencies.

The state's policy on internal controls requires that each agency head identify, analyze, and manage business risks that impact the entity's ability to maintain its financial strength and the overall quality of its products and government services.⁶ The policy further requires follow-up procedures that, at a minimum, should include ways to monitor controls and report significant deficiencies to individuals responsible for the process or activity involved, including executive management and those individuals in a position to take corrective action.

Recommendation

- *The office should develop and implement procedures to ensure it identifies financial risks and monitors the effectiveness of its internal controls on an on-going basis.*

The Office of Enterprise Technology lacked effective controls over equipment and did not accurately track equipment in its inventory records.

The office did not maintain accurate inventory records for its equipment. The office was unable to locate 11 of the 20 sensitive assets we tested from the inventory records; however, it later found documentation that showed it had disposed of four of these assets.

Finding 1

Finding 2

⁶ Minnesota Management and Budget Policy 0102-01 *Internal Control*.

The equipment inventory records included both capital and sensitive assets.⁷ From July 2006 through April 2009, the office purchased \$13.2 million of equipment.

The office had the following weaknesses in its inventory management practices:

- The office failed to segregate equipment inventory duties. The managers who had custody of the equipment were also responsible for taking a physical inventory of their assigned equipment. By not segregating the custody and physical inventory functions, the risk of errors and fraud increases.
- The office had not taken a physical inventory of its sensitive assets for more than two years and did not perform a complete physical inventory of equipment after hiring a new equipment coordinator. State guidelines require a complete physical inventory for sensitive assets be conducted at least biennially,⁸ and the office's internal policy requires an annual physical inventory of sensitive assets. In addition, state guidelines recommends taking a physical inventory of equipment whenever the equipment coordinator changes.
- The office's equipment coordinator did not require proper documentation for the disposal or trade-in of capital assets. The coordinator updated the inventory records from managers' notes on the inventory listing used during the physical inventory without verifying or obtaining documentation of the changes. State guidelines require agencies to complete a *Property Disposition Request* form when disposing of capital assets and remit the form and the asset to the Department of Administration's Surplus Services.⁹ If assets are lost or stolen, state policy requires the agency to complete a *Stolen, Lost, Damaged or Recovered Property Report* and remit the report to the agency's equipment coordinator and security personnel and the Office of the Legislative Auditor.
- The office's equipment records did not contain all information required by state guidelines.¹⁰ The records did not specify the physical locations of the assets, and 22 out of 30 assets we tested were missing make, model and/or serial number. Without this specific information, it is difficult to authenticate an asset during a physical inventory count.

⁷ Capital assets include property that costs \$5,000 or more, has a normal useful life expectancy exceeding two years, and maintains its identity while in use. Sensitive assets are items that are generally for individual use or could be easily sold and are most often subject to theft or misuse.

⁸ Department of Administration User's Guide to Property Management, Section 5, III, B.

⁹ Department of Administration User's Guide to Property Management, Section 2, II, B, 6.

¹⁰ Department of Administration User's Guide to Property Management, Section 5, II, A, 4.

- The office did not formally document, through either interagency agreements or other formal communication, the transfer of custody and accountability for equipment it purchased for other agencies. The office purchased the equipment in 2008 and 2009 under the small agency technical assistance project appropriation.¹¹ This appropriation provided \$1 million to address critical business technology infrastructure needs of small agencies, boards, and councils that did not have the resources to meet their technology needs.
- The office's fixed asset inventory management policy had some inconsistencies with state guidelines.¹² For example, state policy requires agencies to take additional complete physical inventories every six months if the initial physical inventory reveals significant inaccuracies in the inventory records. The office's policy, however, states that spot checks should be conducted until the area has established a satisfactory accuracy level.

Recommendations

- *The office should segregate the custody and physical inventory functions.*
- *The office should align its inventory management procedures with the requirements of the state's equipment policy and comply with the policies, including:*
 - *Performing the required physical inventories of all its sensitive and capital assets.*
 - *Tracking required equipment information in the accounting records.*
 - *Requiring appropriate documentation for asset disposals and updating inventory records accordingly.*
- *The office should ensure that it formally documents its transfer of responsibility for the equipment purchased under the small agency technical assistance project to the respective agencies.*

¹¹ *Laws of Minnesota* 2007, Chapter 148, Article 1, Section 10.

¹² Department of Administration User's Guide to Property Management.

Finding 3

The Office of Enterprise Technology allowed some employees to have incompatible and unnecessary access to the state's accounting and payroll systems and the office's accounts receivable subsystem.

The office gave some employees incompatible access to state and agency accounting systems. Incompatible access exists when one employee can control an entire transaction or process, creating higher risks of erroneous or fraudulent transactions. The office did not design, document, or implement effective controls to mitigate these risks. In addition, the office did not always limit its own or the Department of Administration's employee access based on the employee's current job duties. The Department of Administration provided administrative support, such as payroll processing to the office, as required by statute.¹³

State policies require agencies to avoid allowing their employees to have incompatible access to the state's accounting and payroll systems.¹⁴ State policies also require that if incompatible access is unavoidable, the agency needs to have effective mitigating controls to reduce the risk that an employee will exploit the weakness without detection. Similarly, the office should either avoid incompatible access to its internal accounts receivable subsystem or have controls in place to monitor the duties of employees with incompatible access.

The following incompatible or unnecessary access existed:

- The office had six employees with incompatible access to the state's accounting system.
- The office had four employees with incompatible access to the office's accounts receivable subsystem and one employee with unnecessary access to that system because the employee no longer needed the access for current job duties.
- The Department of Administration had five employees with unnecessary access to the state's payroll system to process the office's payroll. The office had not ensured the Department of Administration changed payroll system access for employees whose job responsibilities changed. The office expected the Department of Administration to conduct an annual review of payroll system access; however, the annual review did not detect these weaknesses.

The risk of errors and fraud increases when employees have incompatible or excessive access to the accounting systems and the office has not designed effective controls to mitigate the risk that it will not detect the error or fraud.

¹³ *Minnesota Statutes* 2008, 16E.02, subd. 3.

¹⁴ Minnesota Management and Budget policies 1101-07 *Security Access* and HR045 *SEMA4 Security*.

Recommendations

- *The office should eliminate incompatible and unnecessary access to the state's accounting and payroll systems and its accounts receivable system. In cases where it cannot segregate incompatible access, the office should design, document, and implement effective mitigating controls.*
- *The office should periodically monitor access for changes in employment or job duties.*

The Office of Enterprise Technology did not ensure key procedures were performed to verify the accuracy of its payroll transactions.

Finding 4

As noted in the previous finding, the Department of Administration provided certain administrative support, such as payroll processing, to the office. However, the office did not ensure that Department of Administration staff adequately reviewed two key payroll reports, and the Department of Administration staff failed to follow up on report exceptions. In addition, the office did not ensure its accounting staff adequately reviewed a third key payroll report. Payroll accounted for about 32 percent of the office's expenses, totaling approximately \$30 million annually. The office had the following weaknesses:

- The office and the Department of Administration did not consistently comply with the state policy on employee self service time entry (the state's electronic time keeping system).¹⁵ Following this policy provides assurance that employees received correct compensation. First, the Department of Administration staff did not sufficiently document the review of the self service time entry audit report. Reports for eight of the ten pay periods we tested had no evidence that staff had reviewed or followed up on exceptions that were noted. The other two reports had some evidence of review, but no indication of who performed the review or what action staff took to investigate the exceptions noted. State policy requires a documented review of the reports, along with follow up actions taken based on the review. Second, one office assistant commissioner consistently did not complete his own timesheets and failed to approve his seven employees' timesheets. He was responsible for more than \$756,000 in payroll expenses for fiscal year 2008. Finally, as of June 2009, the self service time entry audit report still listed an office employee who left state employment in February 2009 as the backup approver for timesheets in eight departments. To ensure that agencies accurately pay employees, state policy requires that employees complete their own timesheets, managers

¹⁵ Minnesota Management and Budget policy PAY0017 *Employee Self Service Time Entry*.

approve employee timesheets, and payroll staff set up appropriate backup approvers.

- The Department of Administration staff did not consistently review the payroll register, as required by state policy.¹⁶ The payroll register shows the payroll transactions processed each pay period. Payroll registers for eight of the ten pay periods we tested lacked evidence of review. State policy requires agencies to review the payroll register report each pay period to verify that the agency accurately input hours, amounts, lump sum payments, and other adjustments into the state's payroll system. The policy also requires agencies to document the review.
- The office did not review the payroll posting audit trail, as required by state policy, to verify that payroll is charged to the correct funding source in the state's accounting system.¹⁷

The office's interagency agreement with the Department of Administration for human resources and payroll services did not adequately define the administrative support services the Department of Administration would provide or the financial arrangements for these services. The agencies prepared an annual budget document, identifying the Department of Administration staff that would provide the human resources and payroll services to the office and allocating the cost of the services between the agencies; however, they did not define the specific services these employees would perform. During fiscal year 2008, the office paid the Department of Administration approximately \$225,000 for these services.

Recommendations

- *The office should follow up on time reporting exceptions on the self service time entry audit report. It should require that employees complete their own timesheets and supervisors approve subordinates' time. The office should also periodically review and update the payroll supervisory review structure to ensure that it appropriately reflects staffing changes.*
- *The office should have an independent review of the payroll register each pay period to verify the accuracy of payroll transactions.*
- *The office should review the payroll posting audit trail to ensure it paid employees from the correct funding sources.*

¹⁶ Minnesota Management and Budget Policy PAY0028 *Agency Verification of Payroll and Human Resources Transactions*.

¹⁷ Minnesota Management and Budget Policy PAY0018 *Labor Distribution*.

- *The office should define and document the specific administrative support services the Department of Administration will provide.*

The Office of Enterprise Technology did not adequately safeguard its receipts.

Finding 5

The office did not adequately safeguard about \$32.5 million it received from July 2006 through April 2009, primarily for services provided to nonstate entities. The office had the following weaknesses related to its receipt process:

- The office's mail room staff recorded the receipts on an electronic check log, but no one independently reconciled the check logs to the daily deposits. In addition, the mail room did not keep a paper copy of the check log and overwrote the electronic log with subsequent days' receipts. Without the mail room log, it is impossible to verify that all receipts were properly deposited.
- One office employee had incompatible access to the accounts receivable subsystem (as noted in Finding 3), prepared the bank deposit, and brought the deposit to the state treasury. By not separating these incompatible duties, the office increased the risk of error and fraud to an unacceptable level. The office had not established other controls to mitigate this risk.
- The office did not adequately safeguard receipts: It stored receipts in an unlocked cabinet until the next day when an employee deposited the checks with the state treasury. The agency should restrict access to receipts to the person accountable for the funds.

The office had not developed internal policies and procedures, as required by state policy, to ensure receipts are properly safeguarded, deposited, and recorded in the state's accounting system and adequate separation of duties exists.¹⁸

Recommendation

- *The office should develop and implement internal policies and procedures for receipts to ensure that it:*
 - *Independently reconciles the check log to the daily deposit.*
 - *Separates incompatible duties.*
 - *Safeguards receipts.*
 - *Retains supporting documentation.*

¹⁸ Minnesota Management and Budget Policy 0602-03, *Recording & Depositing Receipts*.

Finding 6

The Office of Enterprise Technology did not substantiate its allocation and computation of certain costs included in some of its variable rate billings for computing services.

The office did not provide adequate documentation to substantiate the accuracy of some variable rate computing services billings we tested.¹⁹ The office did not adequately support how it determined certain costs. The office did not maintain its support for these complex billings in a way that allowed us to determine the accuracy of 7 of the 26 (\$71,793 of the \$471,326) variable rate billings we selected for testing. For example, in one instance, the office did not provide adequate documentation or explanation for billings to three agencies that shared a disaster recovery site. The office provided a vendor contract that specified the total monthly charges incurred to operate the facility but could not document or explain how it allocated those costs to the respective agencies. We tested 26 variable rate billings for computing services, and the office could not demonstrate the cost portion for seven billings, and four of the billings had incorrect rates.

As a vendor to state agencies and other governmental units, the office should be able to show more directly that it determined its billing rates accurately. Variable rate computing services comprised 13 percent of the office's variable rate billings, or about \$6 million from July 2006 through April 2009.

Recommendation

- *The office should maintain adequate documentation to substantiate the accuracy of its variable rate billings.*

Finding 7

The Office of Enterprise Technology did not adequately segregate responsibilities for payments made outside the regular state payment process.

The office allowed five employees who process payments to vendors through the state's accounting system to authorize special handling of certain payments. The special handling involved creating a paper state warrant (similar to a check) and physically obtaining the warrant from the department of Minnesota Management and Budget for mailing or delivery to the vendor. Processing payments and physically handling warrants are incompatible duties, because together they could allow an employee to record an inappropriate payment and obtain physical access of the warrant generated by that transaction. By combining these duties, the office created an unacceptable risk of fraud and did not implement controls to mitigate the risk, such as having an independent person monitor payments made through special handling. Typically, the state makes its payments through electronic fund

¹⁹ The office had two pricing structures for its billings: 1) the office established fixed rates at the beginning of the fiscal year and 2) determined variable or "cost plus" rates based on the office's cost for the product or service plus a mark up based on either a percentage of the cost or a flat rate.

transfers or mails state warrants directly from the department of Minnesota Management and Budget, which results in the segregation of these duties. From July 2006 through April 2009, the office processed and obtained about 180 warrants totaling approximately \$9 million.

Recommendation

- *The office should not allow an employee who processes vendor payments to also authorize and physically handle a paper warrant. If the office cannot segregate these incompatible duties, it should have an independent person review these types of payments.*

The Office of Enterprise Technology did not formalize its agreements with other agencies for staff it provided to these entities.

Finding 8

The office did not have formal interagency agreements with the Department of Administration and the Office of the Governor for employees that provided technology services to these entities. From July 2006 through April 2009, the Department of Administration paid the office about \$102,000 for technology and administrative services provided by one of the office's employees. (This arrangement began before the office became a separate agency and was a part of the Department of Administration.) In addition, over the same period, the office provided and paid salary and fringe benefits of about \$341,000 for another employee who provided computer support and database services to the Office of the Governor.

State policy allows agencies to share resources or personnel to make the best use of state resources.²⁰ The policy provides for these arrangements to be formally documented in an interagency agreement. The agreement should define the services provided, the period of the agreement, and the financial responsibilities of the agencies. Without an authorized written agreement, questions or conflicts about duties, compensation, or other terms of the agreement are more likely to arise.

Recommendation

- *The office should formalize its agreements when providing services to other state agencies.*

²⁰ Minnesota Management and Budget policy 0705-05 *Interagency Agreements*.



November 10, 2009

James R. Nobles, Legislative Auditor
658 Cedar Street
140 Centennial Office Building
St. Paul, MN 55155

Dear Mr. Nobles:

I would like to thank you and your team for the work done on this internal control and compliance audit over selected financial activities for the period of July 2006 through April 2009. We agree with your overall conclusions. We understand the importance of financial and business process control and compliance, and we are committed to resolving the identified concerns.

With this letter, we are delivering our response to your recommendations, and have identified actions we have already taken and corrective action we will be taking for each finding.

Finding 1 – The Office of Enterprise Technology did not adequately assess its business risks or monitor the effectiveness of its internal controls, as required by state policy.

Recommendation – The Office should develop and implement procedures to ensure it identifies risks and monitors the effectiveness of its internal controls on an ongoing basis.

Response – The Office of Enterprise Technology (OET) understands and agrees with the need for strong and effective internal controls. OET will be working with Minnesota Management and Budget, consulting with other agencies, and coordinating with internal staff to define and develop more effective internal controls. OET will further improve and implement internal control procedures that identify and mitigate risks, train staff, and implement ongoing monitoring for our key business functions.

Person responsible: Larry Freund, CFO
Target implementation date: September 30, 2010

Finding 2 – The Office of Enterprise Technology lacked effective controls over equipment and did not accurately track equipment in its inventory records.

Recommendations – The office should segregate the custody and physical inventory functions.

The office should align its inventory management procedures with the requirements of the state's equipment policy and comply with the policies, including:

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- Performing the required physical inventories of all its sensitive and capital assets.
- Tracking required equipment information in the accounting records.
- Requiring appropriate documentation for the asset disposals and updating document inventory records accordingly.

The office should ensure that it formally documents its transfer of responsibility for the equipment purchased under the small agency technical assistance project to the respective agencies.

Response – OET manages a large inventory of capital and sensitive assets and is committed to improving its control over all of its equipment. To this end, we will:

- Segregate custody and physical inventory functions so that physical counts are not the responsibility of the individual with custody of the asset;
- Ensure internal procedures for inventory management are consistent with state policy and are properly implemented; and
- Prepare and process appropriate documentation to transfer equipment purchased under the small agency technical assistance project to the appropriate agency with custodial control of the equipment.

Person responsible: Julie Freeman, Fiscal & Administrative Services Manager, and
Jesse Windmiller, Accounting Technician/Asset Coordinator

Target implementation date: June 30, 2010

Finding 3 – The Office of Enterprise Technology allowed some employees to have incompatible and unnecessary access to the state's accounting and payroll systems and the office's accounts receivable subsystem.

Recommendations – The office should eliminate incompatible and unnecessary access to the state's accounting and payroll systems and its accounts receivable system. In cases where it cannot segregate incompatible access, the office should design, document, and implement effective mitigating controls.

The office should periodically monitor access for changes in employment or job duties.

Response – OET has gone through the process of eliminating incompatible and unnecessary access to the accounting, payroll, and accounts receivable systems. In the future, if it is necessary to have incompatible access to any systems, mitigating controls will be documented and implemented. Access to these systems will be reviewed quarterly and monitored more frequently for changes in employment and job duties.

Person responsible: Julie Freeman, Fiscal & Administrative Services Manager
Target implementation date: Implemented

Finding 4 – The Office of Enterprise Technology did not ensure key procedures were performed to verify the accuracy of its payroll transactions.

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Recommendations –The office should follow up on time reporting exceptions on the self service time entry audit report. It should require that employees complete their own timesheets and supervisors approve subordinates' time. The office should also periodically review and update the payroll supervisory structure to ensure that it appropriately reflects staffing changes.

The office should have an independent review of the payroll register each pay period to verify the accuracy of payroll transactions.

The office should review the payroll posting audit trail to ensure it paid employees from the correct funding source.

The office should define and document the specific administrative support services the Department of Administration will provide.

Response - Department of Administration, acting on behalf of OET, is ensuring that the self service entry audit report and payroll register are reviewed for each payperiod to verify the accuracy of payroll transactions. Also, processes are being periodically reviewed by them to ensure employees are completing their own timesheets, supervisors are approving subordinate's time, and the payroll supervisory structure (primary and secondary approvers) appropriately reflects staffing changes.

OET has implemented a process whereby managers, or their designee, pull the payroll posting audit trail report every pay period from MMB's Financial Information System (FIS) to review and verify the payroll information for their area. If errors or discrepancies are found, they are documented and sent to Financial Management for corrective action. The reviewer then signs the Payroll Posting Audit Verification form and retains this document and any pertinent information locally for audit purposes for a period of five years.

OET and the Department of Administration will more clearly articulate the specific administrative support services the Department of Administration will provide in the annual interagency agreement that is prepared annually.

Person responsible: Larry Freund, CFO

Sue Wickham, Human Resources Director

Target implementation date: Partially implemented, full implementation June 30, 2010

Finding 5 – The Office of Enterprise Technology did not adequately safeguard its receipts.

Recommendation – The office should develop and implement internal policies and procedures for receipts to ensure that it:

- Independently reconciles the check log to the daily deposit.
- Separates incompatible duties.
- Safeguards receipts.
- Retains supporting documentation.

Response – OET has revised and implemented policies and procedures for receipts.

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Mail room staffs prepare and retain a daily check log. Deposits are prepared by the accounts receivable staff. Staff outside of accounts receivable unit reconcile the deposit document to the check log and then take the deposit to the treasury.

On a monthly basis, the retained daily check logs are used to reconcile the deposits recorded in MAPS and Traverse. This reconciliation is performed by staff outside of the accounts receivable unit.

Receipts are stored in a locked safety box until ready for processing.

Person responsible: Corlyn Maxwell, Accounting Director
Target implementation date: Implemented

Finding 6 – The Office of Enterprise Technology did not substantiate its allocation and computation of certain costs included in some of its variable rate billings for computing services.

Recommendation – The office should maintain adequate documentation to substantiate the accuracy of its variable rate billings.

Response – OET has implemented a process whereby notations about the variable billings are being made in the billing record when appropriate. Also, all supporting documentation for allocation and computation of costs included in the cost plus variable billings is being attached to the electronic billing record in the ARS billing database to substantiate its variable rate billings. This will also ensure ease of access of the information for customer inquiries, internal controls and audit.

OET has created a centralized Customer Service and Management (CSM) area including a Service Portfolio Management group that manages all OET billable services over their entire life cycle, from conception to retirement/decommission. The Service Portfolio Management group, along with Technology Management (service deliverers), and Financial Management-Budgeting / Financial Analysis, will be integral partners in the budget and rate-setting process moving forward. This new service-based costing approach will markedly improve the documentation and substantiation for such billings.

Person responsible: Corlyn Maxwell, Accounting Director
Target implementation date: Implemented

Finding 7 – The Office of Enterprise Technology did not adequately segregate responsibilities for payments made outside the regular state payment process.

Recommendation – The office should not allow an employee who processes vendor payments to also authorize and physically handle a paper warrant. If the office cannot segregate these incompatible duties, it should have an independent person review these types of payments.

Response – OET has submitted to Minnesota Management and Budget (MMB) listings of authorized signers for pull warrants and authorized individuals for picking up the pull warrants

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and will adhere to these authorizations. We have added staff outside of the accounts payable unit to segregate responsibility.

A quarterly reconciliation process for all pull warrants has also been implemented. This process consists of running a crystal report on all pull warrants for the quarter and having a non-accounts payable staff compare this report with the financial transaction log to verify and validate each pull warrant. The non-accounts payable staff person will sign and date the report and place it in the financial transaction log with all corresponding documentation.

Person responsible: Corlyn Maxwell, Accounting Director
Target implementation date: Implemented

Finding 8 – The Office of Enterprise Technology did not formalize its agreements with other agencies for staff it provided to these entities.

Recommendation – The office should formalize its agreements when providing services to other state agencies.

Response – OET will work with the other agencies and formalize interagency agreements when we are providing staff services to these agencies. The Governor's Office and OET formalized an interagency agreement in FY 2010.

Person responsible: Larry Freund, CFO
Target implementation date: December 31, 2009

Sincerely,



Gopal Khanna
State CIO