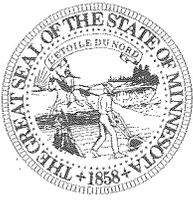


**STATEWIDE AUDIT  
DEPARTMENT OF ADMINISTRATION  
MANAGEMENT LETTER  
YEAR ENDED JUNE 30, 1985**

**FEBRUARY 1986**





STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

VETERANS SERVICE BUILDING, ST. PAUL, MN 55155 • 612/296-4708

JAMES R. NOBLES, LEGISLATIVE AUDITOR

Ms. Sandra Hale, Commissioner  
Department of Administration  
208 Administration Building  
St. Paul, Minnesota 55155

Dear Commissioner Hale:

We have reviewed certain accounting procedures and controls for your department as part of our statewide audit of the State of Minnesota's fiscal year 1985 financial statements and federal programs. The scope of our work was limited to:

- those aspects of your department which have a material impact on any of the state's various funds and account groups shown on the financial statements;
- your centralized function responsibilities for computer services, procurement, contract management, real estate management, and building construction; and
- the status of prior audit recommendations.

We emphasize that this has not been a complete financial and compliance audit of all programs within your department. Even though no auditing of federal programs was done in your department during our fiscal year 1985 audit, the statewide single audit coverage still satisfies the federal government's financial and compliance audit requirements for all federal programs administered by your department in fiscal year 1985.

This management letter does not discuss our limited review of EDP system general controls at the Information Management Bureau (IMB). Recommendations developed as a result of that review will be addressed in a separate report, to be issued at a later date.

This management letter contains both our recommendations developed during this audit and reiteration of our prior audit recommendations which have not yet been implemented. Prior audit recommendations repeated in this text are denoted under the caption "PRIOR RECOMMENDATIONS NOT IMPLEMENTED" or "PRIOR RECOMMENDATIONS PARTIALLY IMPLEMENTED." Attached to your management letter is a summary of the progress made on all audit recommendations developed during our fiscal year 1984 audit.

The current recommendations included in this letter are presented to assist you in improving accounting procedures and controls. Progress on implementing these recommendations will be reviewed during our audit next year.

CURRENT FINDINGS AND RECOMMENDATIONS

Some Administration revolving funds do not have adequate accounts receivable systems for monitoring outstanding balances and determining accounts receivable for financial reporting.

During fiscal year 1985, primary control over payment of revolving fund charges was transferred from Administration to the user agencies. In the past, these charges were initiated by Administration through account transfers which they recorded on the statewide accounting (SWA) system. User agencies had to simply specify the account number(s) from which the revolving fund charges were to be taken. Administration then transferred funds from those accounts as charges accrued. User agencies were informed about the specifics of the transactions after Administration had obtained the funds. Under this system, Administration maintained virtually total control over collecting revolving fund charges. Outstanding accounts receivable and uncollectible accounts were minimal. Thus, an elaborate accounts receivable system was not necessary.

This system changed significantly in fiscal year 1985. Essentially, control over these account transfers was given to the user agencies. Administration's role was changed to that of a conventional vendor. Under the new system, Administration prepares billings for revolving fund charges and submits them to user agencies. User agencies are responsible for transferring funds from their accounts to the appropriate Administration revolving funds. The agencies are not required to submit any documentation to Administration after initiating the account transfer.

Administration and its revolving funds staff did not anticipate the implications of this new process and have not developed adequate accounts receivable systems for most revolving funds. There has been no central coordination of accounts receivable development at Administration. In addition, there has not been a department-wide determination of who is responsible for maintaining accounts receivable records. Depending on the fund, the accounts receivable records may be kept by fiscal services, division staff, or a combination of both.

For most revolving funds, the invoices are manually posted to a sales journal before being sent to the user agencies. Payments are then posted to the sales journal. In theory, those invoices for which no payments have been posted are considered to be outstanding accounts receivable. However, because Administration does not receive confirmation of account transfers made by user agencies, the revolving funds may not know which invoices have been paid. The information coded in SWA as part of the transfer is often not complete and therefore cannot be used to match the payments to the original bills. In addition, user agencies may make several partial payment transfers on a single bill, therefore compounding the matching problems.

For Central Stores, information from SWA was used to determine collections. Collections were sorted by invoice number in an attempt to identify those invoices for which no payment had been made. However, due to errors and lack of information included on SWA for certain transactions, all receipts could not be properly identified and matched to the original invoices. Also, in some cases, the invoice amounts posted to the Central Stores sales journal were later changed because of clerical errors or pricing changes. As a result, the sales figures used by the fiscal services accountant did not agree with the revised sales journal totals kept by Central Stores.

The State Printer had no system to subsequently track account transfers during fiscal year 1985. For some types of printing, Administration was still making the account transfers as of June 30, 1985. However, these invoices will also be paid by user agencies during fiscal year 1986. As of the time of our field work, the State Printer had not set up a system to monitor these payments. In addition, the State Printer has not been using the sequentially assigned printing requisition numbers to verify that all jobs were billed.

Even for Telecommunications, which has its own accounts receivable system, totals from this system are not used to determine accounts receivable balances at June 30 for the financial statements. The Telecommunications system is only used to monitor uncollectibles. It was not designed to provide a clean cutoff of activity as of June 30 and does not reconcile to the accounts receivable figure shown on the financial statements.

In order to make sure that all amounts billed by Administration revolving funds are collected, and to ensure the accuracy of the financial statement figures for accounts receivable, adequate accounts receivable systems should be maintained for all Administration funds. In order to provide better control over the accounts receivable process, Administration should consider establishing a central accounts receivable system for all revolving funds. They should also make sure that user agencies receive uniform guidelines for coding account transfers in the statewide accounting system, so that payments can be matched to invoices. For those funds in which many invoices are sent out each month, the funds should consider using cyclical billings, such as one consolidated invoice each month. They should also attempt to bill agency cost centers whenever possible, to avoid single invoices being split by agencies and paid by several transfers. Many of these methods have been successfully used by the Information Management Bureau (IMB) in their accounts receivable system.

*RECOMMENDATION:*

1. *Administration should develop adequate accounts receivable systems for all Administration revolving funds, to be used to monitor outstanding balances and as a source of the financial statement figures for accounts receivable.*

Accounting for and documentation of Administration's performance incentive program (PIP) need to be improved.

During fiscal year 1984, Administration implemented a new performance incentive program (PIP) for certain of its revolving funds. The program is intended to promote division operating efficiency. PIP allows employees of participating divisions to have a voice in determining how any profits resulting from increased efficiency will be spent.

Each year, participating divisions prepare a plan for spending anticipated division profits. This plan is approved by the Assistant Commissioner and is used as a basis for spending any profits earned that year. The first PIP plans were approved in fiscal year 1984, and applied to any profits earned as of March 31, 1984. Most of the disbursements made relating to those profits were made during fiscal year 1985.

According to the PIP steering committee guidelines, profits may be spent in the following manner:

"Profit dollars are divided into four categories. Fifty percent of any profits must be returned to the Department of Finance. At least thirty percent must be devoted to reinvestment. Up to fifteen percent can be devoted to quality of work life. Five percent must be set aside for Bureau-wide activities. The latter three categories comprise the PIP pool."

We did not analyze the effectiveness of the PIP program from a management perspective. However, we did find problems with the documentation and accounting for the program.

First, the PIP plans which we reviewed were very general. Categories such as "remodel warehouse" are used, without any further explanation of the actual types of disbursements anticipated. It is therefore very difficult to assess whether some of the disbursements had been foreseen when the plan was originally approved.

For Printing and Mailing Services (PMS), we could not determine whether certain PIP disbursements had been approved by the Assistant Commissioner. Some portions of the original PIP plan for PMS were denied. However, we were told that certain of these disbursements were later approved, but that this subsequent approval was not documented in writing. In addition, it appears that PIP disbursements by category for PMS did not adhere to the percentages outlined in the PIP steering committee guidelines.

Another problem with PIP is the use of March 31 financial statements to determine the amount of profits available to be allocated to PIP. The PIP guidelines state that "the PIP year runs from April 1 through March 31." Since the fiscal year-end for financial reporting is June 30, the fiscal services division of Administration does not currently have a mechanism to easily generate year-ended March 31 financial statements. In addition, the March 31 financial statements do not go through any special review or

audit to determine their accuracy. Some of the information used on the March 31 statements is based on estimates, while the information gathered for the June 30 statements is much more complete. This is especially true of the financial statement figures for inventories, accounts receivable, and accounts payable, all of which could have a substantial impact on profits.

Finally, there is a lack of formal recordkeeping for the PIP program. For the year ended March 31, 1984, there were at least two different amounts reported as the PIP profit totals. There needs to be a person or group formally designated as responsible for determining the PIP amounts at the end of each year. Also, responsibility for maintaining detailed accounting records of PIP disbursements must be determined. The fiscal services division kept no PIP records during fiscal year 1985. All existing records were maintained in varying degrees of completeness by the division directors. Once the amounts to be spent in each PIP category have been decided, a formal record of the actual amounts spent must be kept. This record should include the amount, transaction number, vendor, and category of disbursement. These records of amounts spent are important for evaluating the success of the PIP program and monitoring compliance with PIP plans and guidelines.

*RECOMMENDATIONS:*

2. *Administration should maintain adequate records and documentation for PIP. All PIP plan approvals, including revisions, should be documented in writing. PIP disbursement records should include the amount, transaction number, vendor, and PIP category for each disbursement.*
3. *Administration officials should consider using year-ended June 30 financial statements for determining PIP profits. However, if the March 31 statements continue to be used:*
  - *steps should be taken to ensure the integrity of the March 31 information; and*
  - *fiscal services should develop a procedure for consistently determining the year to date March 31 financial statement figures.*

Two Administration revolving funds do not have adequate general ledger accounting systems.

Two Administration revolving funds are not supported by adequate records or documentation. The accountant for Telecommunications and Central Stores keeps no detailed general ledger of transactions affecting these funds. Rather, the accounting records consist of a spreadsheet done each quarter. This spreadsheet is very summarized, and does not give a detailed accounting of the fund's activities. It is also not completed often enough to provide timely information on the fund. Because monthly postings are not made, reconciliations of control accounts to detailed subsidiary records are difficult. In addition, there is often no documentation supporting adjustments made to the financial information. There

is no general journal which would provide detailed adjusting entries along with explanations of the adjustments.

It is therefore very difficult to determine whether all necessary adjustments were made, or the reasons for certain adjustments. In addition, reconciliations between the accounts and any subsidiary records are difficult. If errors were made, they cannot be readily identified from the summarized information. Detailed financial information, in the form of a general ledger, is important to document the fund's activities, especially non-routine transactions and to ensure that all financial information was included in the resulting financial statements.

*RECOMMENDATION:*

4. *Administration should ensure that detailed general ledgers and general journals are established and maintained for Telecommunications and Central Stores. Postings to these records should be done at least monthly.*

COMPUTER SERVICES

The information management bureau (IMB) is responsible for operating the state's central computers and coordinating all computer systems used within the state.

PRIOR RECOMMENDATION NOT IMPLEMENTED: The accuracy of financial information reported for IMB's fixed assets needs improvement.

IMB operates the state's central computers and owns supporting peripheral equipment throughout the state. IMB has an inventory coordinator who maintains detailed fixed asset ledger cards for each piece of equipment it owns. The inventory coordinator continually updates the cards for new purchases, sales, and retirements. Administration also has a fiscal services accountant responsible for IMB financial reporting. The accountant maintains a general ledger including the control accounts for fixed assets and depreciation.

In our prior year's audit, we noted that the detailed records of fixed assets maintained at IMB were not being reconciled to the general ledger control accounts kept by fiscal services, and that the fiscal services accountant was not routinely consulting the inventory coordinator concerning fixed asset transactions. Much improvement has been made in this area, with frequent communication taking place between the fiscal services accountant and IMB's inventory coordinator. However, some problems still remain.

The fixed asset general ledger control accounts are not being periodically reconciled to the subsidiary cards. Computer terminal upgrades, installation charges, and freight charges are often incorrectly or inconsistently capitalized. Costs for equipment which is leased or bought through installment purchase is not always correctly or consistently recorded. An example of this is a security system treated as an expense by the inventory coordinator, but capitalized as a leasehold improvement by the fiscal

services accountant. Situations such as these may result in discrepancies between the fixed asset detail records maintained by the inventory coordinator and the totals kept by the fiscal services accountant. Therefore, periodic reconciliations are important.

The improvements made in accounting for IMB fixed assets should be continued, as adequate communication between the individuals responsible for recording and maintaining fixed asset records is essential for the proper recording and reporting of all assets. In addition, the general ledger control accounts must be reconciled periodically to the subsidiary fixed asset cards to ensure that proper and consistent recording of the assets has taken place.

*RECOMMENDATION:*

5. *IMB's fixed asset general ledger control accounts should be periodically reconciled to the subsidiary fixed asset subsidiary records.*

STATE PRINTER

The printing and duplicating section of the printing and mailing services division processes all printing and duplicating requests from state agencies. This section is commonly referred to as the State Printer.

PRIOR RECOMMENDATION PARTIALLY IMPLEMENTED: Procedures for compiling the State Printer's work-in-process inventory need improvement.

Since the State Printer is a manufacturing-type business, their year-end inventory must include work-in-process (WIP), which is the value of incomplete jobs in production as of June 30. To determine the amount of work-in-process inventory as of June 30, 1985, State Printer personnel compiled information from a variety of sources. Computer reports from their job cost system were used to determine the direct labor, materials and composition costs of incomplete jobs. Summaries of jobs completed by outside printers (overload jobs) and delivered to the State Printer but not yet shipped to agencies were used to determine overload WIP.

In our last management letter, we made several recommendations concerning the monitoring and compiling of WIP amounts. Although improvements have been made in this area, additional work must be done to ensure accurate WIP information for the financial statements.

The State Printer WIP inventory procedures state that the computer report of WIP costs should be reviewed each month to ensure that all jobs listed on the report are still valid WIP. However, we still found several jobs included on the list which had been completed and shipped to the ordering agency, but not removed from WIP. Some of these jobs were included both in WIP and in sales, and thus, double counted, while others had not been taken out of inventory and charged to sales and cost of goods sold as of year-end. A more timely review of WIP as listed on the State Printer's computer system, especially at year-end, is needed to ensure the accuracy of the amounts shown as work-in-process on the financial statements.

As reported last year, the State Printer also needs to improve their calculation of WIP for overload jobs. During peak times, some printing jobs are contracted to outside printers. The outside printer ships and bills the job to the State Printer who in turn ships and bills the agency and records a sale. This year, jobs worth approximately \$21,000 had been shipped to the agencies and recorded in sales, but were still included in overload WIP. As a result, overload WIP was overstated by that amount. In addition, overload WIP did not include the value of work done by the State Printer staff before the job was sent to an outside printer.

In order for the State Printer financial statements to be accurate, the State Printer staff must review and analyze the status of printing jobs at year-end to ensure their proper classification as either work-in-process inventory or sales.

*RECOMMENDATION:*

6. *The State Printer should ensure the accuracy of their year-end work-in-process inventory by performing timely and adequate reviews of each printing job to determine that all costs have been included and that the job is properly classified on the financial statements.*

Reorder points have not been developed and used for the State Printer's raw materials inventory.

The State Printer's raw materials inventory is maintained on their computerized job costing system. As raw materials are put into production, the system automatically transfers the materials' costs from raw materials inventory to work-in-process. It then updates the raw materials inventory quantities.

This computer system has the capacity of accepting reorder point quantities for the raw materials inventory. The system can compare the reorder quantities with current inventory quantities and alert the inventory supervisor when the reorder point has been reached. The ultimate decision whether or not to reorder would then rest with the State Printer management. Currently this feature is not being used for most raw materials inventory items. Most items are reordered based on the experience of the inventory supervisor. This could lead to stock outs, especially if the inventory supervisor is absent for any length of time. Stock outs of high use items could cause major disruptions of printing production.

The inclusion of reorder points on the State Printer's computerized inventory would help management to better control inventories and could help to prevent costly stock outs.

*RECOMMENDATION:*

7. *The State Printer should establish reorder points for all raw materials inventory items and enter them into their computerized job cost system.*

#### CENTRAL MOTOR POOL

The central motor pool (CMP) division maintains a fleet of motor vehicles which are rented to state agencies on a daily, weekly, or monthly basis.

PRIOR RECOMMENDATION NOT IMPLEMENTED: CMP needs to improve their inventory records.

CMP maintains an inventory of gasohol, automotive parts, and supplies used for its fleet of automobiles. At year-end, CMP had about \$23,000 in this inventory.

The following problems exist with the CMP inventory records:

- At June 30, 1985, many of the CMP inventory cards, which are used as the perpetual inventory records, were inaccurate. CMP does a physical count of inventory on hand as of June 30, and compares the amounts counted to the totals shown on the inventory cards. Of the 551 inventory items counted at year-end, 259 items had a different amount shown on the inventory card than the number actually counted. Many of these discrepancies could not be explained.
- CMP has no policy or procedures for identifying and disposing of obsolete inventory. Obsolescence is a problem at CMP because certain automotive parts purchased may fit only a specific make and model of car. When the fleet changes, all cars of a specific type may be sold, but related repair parts may be retained. CMP should periodically review inventory on hand for those items which can no longer be used and attempt to resell them if possible.
- The gasohol is not valued by using generally accepted accounting principles (GAAP). CMP generally uses the first in first out (FIFO) inventory valuation method for its inventory. However, the gasohol inventory is valued by using an average cost method unacceptable for financial statement purposes.

Accurate records are needed to adequately report inventory balances and to give CMP management a good basis for decision making. Perpetual inventory records should be accurate and up-to-date. All obsolete inventory should be disposed of and removed from the perpetual records. In addition, all inventory items should be valued in accordance with GAAP.

#### RECOMMENDATIONS:

8. *CMP should review inventory records to ensure that they are accurate, reconcile to the physical inventory counts, and all valuations are in accordance with GAAP.*
9. *CMP should develop and implement a system to detect and properly dispose of obsolete inventory.*

Transactions involving vehicles leased by CMP were not properly recorded.

During fiscal year 1985, CMP leased many of their vehicles from outside vendors. In some cases, these leased vehicles were not properly recorded on the financial statements. First, 20 vehicles delivered in June 1985 were excluded from the fixed asset list as of June 30, 1985.

In addition, some leased vehicles were inconsistently valued on the financial statements. For some vehicles, the amount capitalized as an asset by a CMP clerk was not the same as the original lease liability recorded by the fiscal services accountant. This happened because the lessor had sent two different amortization schedules to CMP. The original schedule was used by the CMP staff person to record the asset while the revised schedule had been used by the accountant to record the liability.

In order to properly reflect the assets purchased through capital leases for CMP; the fiscal services accountant for CMP must work closely with CMP division staff. Adequate communication, especially at year-end, must be maintained to ensure the accuracy of the financial statements relating to capital leases and fixed assets.

*RECOMMENDATION:*

10. *The fiscal services accountant for CMP should work with the CMP division staff to make sure that all newly acquired fixed assets are included on the financial statements as of the proper date, and that these assets are capitalized at the proper amounts.*

PROCUREMENT

PRIOR RECOMMENDATION NOT IMPLEMENTED: Checks held by procurement for contract performance security need better management.

Bid security is required by procurement in order to guarantee that, in the event the bidder's offer is accepted by the state, the bidder will enter into a contract in accordance with the bid proposal. This security may take the form of a bid bond or a check. Checks of unsuccessful bidders are returned to the vendors after the bid has been awarded. Checks of successful vendors are held as supply security until the contract is satisfactorily completed. This may be a year or longer, especially for ongoing commodity contracts.

We counted all checks being held by procurement for bid or supply security as of June 11, 1985. We found that checks totalling \$373,738 were on hand as of that date. Most of these checks were secured checks, such as cashier's or certified checks. However, 13 of the checks totalling \$15,402 were regular business or personal checks. It is therefore possible that, even though the successful vendor may violate the contract, procurement may be unable to collect on these personal checks. According to Procurement Bulletin 7-206, only certified checks or bid bonds are to be accepted. Therefore, these unsecured checks should not have been accepted as bid or supply security.

In addition, as we have reported in previous management letters, the security over the checks being held for supply security needs to be improved. These checks are kept by a procurement staff person during the day and are put into a vault during the night. These checks are susceptible to loss or theft because they are held for long periods of time and are unsecured except at night. Therefore, the checks being held as supply security should be deposited to reduce the risk of loss or theft. Procurement has cited potential financial hardship to vendors as a reason for not depositing these checks. However, for secured checks, the check amount is withdrawn from the vendor's account when the check is written and is no longer available to the vendor. Therefore, the paying bank is the current recipient of any interest resulting from the use of the amount of the undeposited checks.

According to a letter written by the special assistant attorney general for procurement, the checks may be deposited, but there are some questions concerning the need to pay interest on amounts deposited. The statutes do not address these supply security checks specifically, but other types of securities held for performance are interest bearing to the vendor. Procurement has not paid interest on any of these checks in the past.

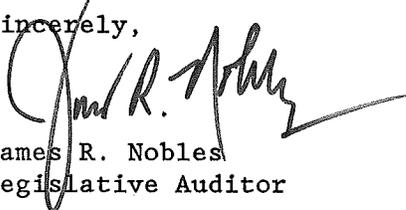
We still believe that these checks would be best secured if they were deposited. If necessary, Administration should seek legislation specifically exempting them from paying interest on this money.

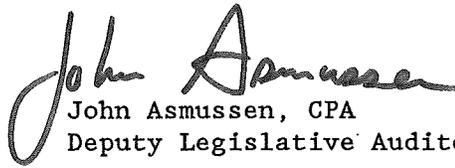
*RECOMMENDATIONS:*

11. *Procurement should accept only certified checks or bid bonds as bid and supply security.*
12. *Procurement should deposit all checks held as supply security from successful bidders into the state treasury.*

Thank you for the cooperation extended to our staff during this audit.

Sincerely,

  
James R. Nobles  
Legislative Auditor

  
John Asmussen, CPA  
Deputy Legislative Auditor

Attachment

February 18, 1986



DEPARTMENT OF ADMINISTRATION

Attachment

STATUS OF PRIOR AUDIT RECOMMENDATIONS  
AND

PROGRESS TOWARD IMPLEMENTATION

Accounts receivable balances at ISB are not adequately monitored for reasonableness.

1. Accounts receivable balances for ISB should be monitored and reviewed for reasonableness by the fiscal services accountant. Any unusual balances should be discussed with appropriate ISB staff.

*Recommendation Implemented.*

The accuracy of financial information reported for ISB's fixed assets needs improvement.

2. ISB's fixed asset general ledger control accounts should be reconciled to the subsidiary fixed assets ledger cards on a periodic basis.

*RECOMMENDATION NOT IMPLEMENTED. See current recommendation #5.*

3. All asset transactions, including all purchases and retirements, should be adequately communicated between ISB and fiscal services, to ensure assets are consistently and properly recorded in accordance with GAAP.

*Recommendation Implemented.*

ISB obtained a General Fund loan which was not used for its intended purpose.

4. ISB should obtain equipment loans from the General Fund only when actually needed. The Department of Finance should be consulted whenever a loan cannot be used for its intended purpose.

*Recommendation Implemented.*

Deliveries made to ISB's main location should be better documented.

5. ISB should develop and use a receiving report for use at ISB's main location. The completed receiving report should be compared to the approved vendor invoices before payment is made.

*Recommendation In Progress. A new policy and procedure has been written for implementation during fiscal year 1986.*

Procedures for monitoring and compiling the State Printer's work-in-process inventory need improvement.

6. The State Printer should take the necessary steps, including revising written procedures, to ensure the accuracy of the year end work-in-process inventory. This would include:
  - periodic review of all WIP jobs listed on their billing system to determine their proper status;
  - procedures to insure that all materials removed from the raw materials inventory are included in WIP inventory; and
  - adequate review of all overload jobs to insure proper classification on the financial statements.

*Recommendation Partially Implemented. See current recommendation #6.*

Printing jobs could be better controlled by using the sequentially assigned job numbers.

7. The State Printer should establish procedures to monitor the numeric sequence of jobs to ensure that each job is billed.

*Recommendation Partially Implemented. See current recommendation #1.*

Formalized written agreements have not been made between telecommunications and state agencies for control and ownership of special purpose telecommunications equipment.

8. Telecommunications should finalize and sign written agreements with user agencies for all special equipment purchases.

*Recommendation In Progress. Although written agreements have been prepared by Telecommunications, they have not yet been signed by user agencies.*

Accounting and recordkeeping for telecommunications receipts and accounts receivable need to be improved.

9. Accounting for telecommunications receipts and accounts receivable should be improved by:
  - documented monthly reconciliations of sales records maintained by the telecommunications division with those kept by fiscal services;
  - timely posting of accounts receivable and receipts to records maintained by fiscal services;
  - monthly reconciliations of incoming checks to subsequent deposits; and

9. (con't)

- sufficient follow-up of delinquent accounts receivable.

*Recommendation Partially Implemented. See current recommendation #1.*

CMP needs to improve their inventory records.

10. CMP should review inventory records to insure that they contain all necessary information, are reconciled to the physical inventory counts, and all valuations are in accordance with GAAP.

*RECOMMENDATION NOT IMPLEMENTED. See current recommendation #8.*

11. CMP should develop and implement a system to detect and properly dispose of obsolete inventory.

*RECOMMENDATION NOT IMPLEMENTED. See current recommendation #9.*

There is an inadequate separation of duties concerning personnel and payroll processing at Administration.

12. The duties of processing and maintaining personnel records should be separated from those of entering payroll data into the computer. The payroll certification report should be reviewed and signed by someone not involved in payroll data input.

*Recommendation Implemented.*

An eligible employee did not receive severance pay when she retired from state service.

13. Administration should review their personnel files to make sure that appropriate severance payments were made. Additional payments should be made to former employees as appropriate.

*Recommendation Implemented.*

14. Administration should make severance payments in accordance with employee contracts and plans.

*Recommendation Implemented.*

PRIOR RECOMMENDATION NOT IMPLEMENTED: Certified checks held by procurement for contract performance security need better management.

15. All checks held as supply security from successful bidders should be deposited in the state treasury.

*RECOMMENDATION NOT IMPLEMENTED. See current recommendation #12.*



DEPARTMENT of Administration

*Office Memorandum*

TO: Jeanine Leifeld, Audit Manager  
Office of the Legislative Auditor

DATE: February 18, 1986

FROM: Sandra J. Hale  
Commissioner



PHONE: 296-6940

SUBJECT: Management Letter

I appreciate the opportunity to review and comment on the preliminary draft of your management letter regarding this department as a result of your financial audit of the State of Minnesota's fiscal year 1985 financial statements. The assistance given to this department by the audit will be helpful as we continue our efforts to improve our financial management practices.

We have numbered our responses to correspond to your recommendations. Our responses outline what we have done or propose to do to implement your recommendations.

1. Responsibility for maintaining accounts receivable records has previously been determined on a division-by-division basis. The varying size and complexity of billing needs ranging from IMB's Kommand/MICS billing to Federal Surplus Property's infrequent manual billings, preclude a completely uniform automated accounts receivable system.

Fiscal Services' accounting officers will work closely with accounts receivable personnel (whether in Fiscal or in divisions) in an attempt to ascertain that accounts receivable records and/or systems provide accurate and timely information for financial statements and all other needs.

2. Improved records and documentation will be achieved by the following actions:

A. Annual plans must now be submitted to and approved by the Assistant Commissioner on July 1. (Starting July 1, 1986, Jeff Zlonis is the person responsible)

B. Any changes in plans must be documented in written addenda. (Jeff Zlonis is the person responsible)

C. All disbursements will be identified as a PIP expense (Division Director responsible) and will include:

- 1) amount
- 2) transaction number
- 3) vendor
- 4) PIP category

All PIP requisitions, purchase orders and invoices will be sent to the Fiscal Services accounting officer who will also maintain a running balance of PIP by division and category.

3) Year end June 30, financial statements will now be used for determining PIP profits. (Jeff Zlonis is the person responsible)

4) General ledgers and general journals are established and maintained for Telecommunications and Central Stores. The appropriate accounts are posted monthly. (Jim Joiner and Guntis Schefers are the persons responsible)

5) A plan will be developed and implemented by March 31, 1986, to periodically reconcile IMB's fixed asset general ledger control accounts to the subsidiary records on a quarterly basis. The FARMS system now seems sufficiently reliable to achieve better controls and reconciliation. (Ralph Fredlund and Don Duffy are the persons responsible)

6. A Work-In-Process (WIP) listing showing all jobs not purged from the computer files is generated every month after the billing process is completed. Each printing activity unit provides a manual list of jobs being processed and these lists are compared against the computer printout. Any job not checked off is tracked to see why it is still listed on the computer printout. This began in July of 1985, and is done by the Business Manager.

The overload inventory WIP is being researched as to what should be included for purposes of the financial statement.

7. The reorder points for items listed in the computerized inventory are in place, but are being checked and updated by the Warehouse Supervisor.

8. The CMP automated Inventory Control System went into production on February 17, 1986. A physical inventory will be taken, values assigned, and input to the system over the next few weeks. (Bob McNeil responsible)

9. As a part of the automated inventory system, an analysis of all inventory item turnover is accomplished on a monthly basis. This will provide data on parts that have not moved and allow for elimination of slow moving and/or obsolete parts. (Bob McNeil is the person responsible)

10. The Fiscal Services accountant for CMP will be working closely with the CMP division staff so that all newly acquired fixed assets are included on the financial statements as of the proper date and that those assets are capitalized at the proper amounts. (Reinhard Ohmann is the person responsible)

Page 3

11. and 12. Procurement proposes to continue the evening storage of certified checks in the Treasurer's office.

However, for storage in the Procurement Division after receipt of checks in the morning, they will secure the checks in one area. This will be in lieu of physically returning the checks to each buyer.

Don Olson is responsible for pick-up and delivery of the checks from the Treasurer's office as well as securing them in the division during the day.

SJH:DK:bl