STATE PLANNING AGENCY
FINANCIAL AND COMPLIANCE AUDIT
FOR THE THREE YEARS ENDED JUNE 30, 1987

AUGUST 1988

Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

88-57

Veterans Service Building, Saint Paul, Minnesota 55155 • 612/296-4708

STATE OF MINNESOTA
OFFICE OF THE LEGISLATIVE AUDITOR
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JAMES R. NOBLES, LEGISLATIVE AUDITOR

Representative Phillip J. Riveness, Chairman
Legislative Audit Commission

Members of the Legislative Audit Commission

Lani Kawamura, Commissioner
State Planning Agency

<u>Audit Scope</u>

We have completed a financial and compliance audit of the State Planning Agency for the three years ended June 30, 1987. Section I provides a brief description of the activities and finances of the State Planning Agency. The scope of our audit included the Environmental Quality Board, which receives administrative support from the State Planning Agency. Our audit was made in accordance with generally accepted auditing standards and the standards for financial and compliance audits contained in the U. S. General Accounting Office <u>Standards for Audit of Government Organizations, Programs, Activities, and Functions</u>, and accordingly, included such audit procedures as we considered necessary in the circumstances. Field work was completed on June 17, 1988.

The objectives of the audit were to:

- study and evaluate controls over revenues and expenditures, assets and liabilities of the State Planning Agency;
- verify that financial transactions were properly recorded on the statewide accounting (SWA) system;
- verify that financial transactions were made in accordance with applicable laws, regulations, and policies, including Minn. Stat. Chapters 116C and 116K, and other finance-related laws and regulations; and
- determine the status of prior audit recommendations included in our audit report for the year ended June 30, 1984.

<u>Management Responsibilities</u>

The management of the State Planning Agency is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

The management of the State Planning Agency is also responsible for the agency's compliance with laws and regulations. In connection with our audit, we selected and tested transactions from the programs administered by the State Planning Agency. The purpose of our testing of transactions was to obtain reasonable assurance that the State Planning Agency had, in all material respects, administered its programs in compliance with applicable laws and regulations.

Audit Techniques

During our audit we employed a variety of audit techniques. These included, but were not limited to, auditor observation, interviews with agency staff, analytical reviews to identify unusual transactions or trends, and the examination of documentation supporting a representative number of transactions. Statistical sampling techniques were chosen. However, the use of statistical samples did not prohibit us from reviewing additional transactions which may have come to our attention during the audit.

Conclusions

In our opinion, except for the issues addressed in Section II, findings 1-3, the system of internal accounting control at the State Planning Agency in effect as of June 17, 1988, taken as a whole, was sufficient to provide management with reasonable, but not absolute assurance, that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly.

In our opinion, for the period July 1, 1984 to June 30, 1987, the State Planning Agency properly recorded, in all material respects, its financial transactions on the statewide accounting system.

In our opinion, except for the issues addressed in Section II, findings 4-5, for the period July 1, 1984 to June 30, 1987, the State Planning Agency administered its programs, in all material respects, in compliance with applicable finance-related laws and regulations.

Section II of the report contains the findings we developed during this audit and are presented to assist the State Planning Agency in improving accounting procedures and controls. We will be monitoring and reviewing the State Planning Agency's progress on resolving these findings. A summary of the progress made on all audit recommendations discussed in our last audit report covering the fiscal year ending June 30, 1984, dated April 24, 1985, is shown in Section III entitled "Status of Prior Audit Recommendations and Progress Toward Implementation."

We would like to thank the staff of the State Planning Agency for their cooperation during this audit.

James R. Nobles
Legislative Auditor

John Asmussen, CPA
Deputy Legislative Auditor

September 16, 1988

STATE PLANNING AGENCY

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AUDIT PARTICIPATION

The following staff from the Office of the Legislative Auditor prepared this report:

John Asmussen, CPA	Deputy Legislative Auditor
Claudia Gudvangen, CPA	Audit Manager
Jack Hirschfeld, CPA	Auditor-In-Charge
Sandy Linn	Staff Auditor
Elaine Weichmann	Intern

EXIT CONFERENCE

The findings and recommendations in this report were discussed with the following staff of the State Planning Agency on Tuesday, September 6, 1988:

Jack Ditmore	Deputy Commissioner
Al Robinette	Assistant Commissioner
Roger Volk	Accounting Coordinator
Connie Duresky	Office Administrator
Bryan Kammerer	Accounting Officer

I. INTRODUCTION

The State Planning Agency coordinates policy analysis and development for the executive branch of state government, identifies and analyzes key policy issues, and makes recommendations for planning and for the Governor's legislative program. The State Planning Agency is organized into four divisions, as follows:

Environmental Division--identifies and defines emerging natural resource and environmental issues, coordinates environmental activities of state agencies and governmental entities, and implements statutory environmental mandates to the agency and the Environmental Quality Board.

Planning Information Center--provides an inventory and analysis of geographic information, provides consultation and training on the use of personal computer based mapping, produces business graphics, and maintains an on-line data base of state information.

Public Investment Division--conducts program analysis and policy development in agriculture and rural development, telecommunications, long range economic development, taxes and tax laws, redevelopment and housing, transportation, and education.

Human Services Division--provides information and recommendations from analysis of changes in population, socio-economic conditions, and intergovernmental policies.

In order to fulfill these responsibilities, the State Planning Agency currently employs approximately 120 staff. Expenditures during the three years ended June 30, 1987 are shown below:

	Year Ended June 30		
	1985	1986	1987
Expenditures:			
Salaries	$4,234,624	$4,187,629	$4,295,440
Contract Services	1,009,978	306,745	499,247
Travel	143,533	141,621	107,203
Supplies	137,443	106,748	122,408
Equipment	281,695	408,878	96,923
Grants and Aids	1,340,320	1,268,590	1,036,341
Other Administrative Expenditures	1,302,715	1,235,429	1,019,711
Total	$8,450,308	$7,655,640	$7,177,273

The activities of the State Planning Agency during fiscal years 1985-1987 were funded by $13.5 million in state appropriations, $4.4 million in federal grants, $3.9 million in fees and assessments, and $1.5 million from other agency receipts. The State Planning Agency operates under the direction and guidance of a commissioner who is appointed by the Governor. Lani Kawamura has served as commissioner of the agency since October 1, 1985.

II. CURRENT FINDINGS AND RECOMMENDATIONS

1. The Land Management Information Center billing and collection procedures need improvement.

The Land Management Information Center (LMIC) was created in 1977 to provide environmental information to land managing agencies within the federal, state and local units of government, and to interested groups and individuals. Services include the inventory and analysis of geographic information, consultation and training on the use of personal computer based mapping, production of business graphics and access to DATANET--an on-line data base of state information. Minn. Stat. Section 116.04, Subd. 5 establishes a revolving account for LMIC and requires them to recover the costs of services provided. Receipts from fees charged for services during fiscal years 1985 to 1987 totaled approximately $2.5 million.

For fiscal years 1986 and 1987 LMIC expenses exceeded revenues by $99,404 and $63,053, respectively. In addition, as of June 6, 1988, the accounts receivable balance for LMIC totaled approximately $160,000, of which $102,000 is the result of overdue accounts, including some dating back to fiscal year 1985. These operating losses and the large accounts receivable balance are due in part to inadequate billing and collection procedures, and have resulted in significant cash flow problems. Because any organization that operates on a reimbursement basis will have a built-in problem with cash flow, start up capital or accumulated retained earnings is usually necessary to maintain operations. LMIC staff believe that a $120,000 working capital balance is realistic. However, retained earnings for the LMIC have decreased from $65,388 on June 30, 1986 to ($78,626) on December 31, 1987. In part this was due to the fact that a billing rate increase requested in 1986 was denied by the Department of Finance. In addition, current billing procedures have not resulted in LMIC achieving an adequate cash flow.

LMIC's current process for billing fees includes:

- daily recording of computer time, supplies and staffing costs charged to individual projects;
- accumulating all costs for each project at the end of each month;
- preparing a report showing accumulated costs for each project;
- submitting the report to project managers for verification, adjustments, and approval; and
- mailing out the invoices to the clients.

We believe the following problems contribute to LMIC's cash flow difficulties:

- There is an unnecessary delay in the billing process. LMIC is able to process and mail invoices within seven to ten days after the end of the month for those accounts that are approved by the project managers. However, approximately 25 to 50 percent of the accounts are not billed until two to four weeks after the end of the month because of a delay by the project managers in reviewing and approving the billing amount. An additional 40 days is allowed for payment before the account is considered overdue, resulting in a total billing period of up to 60 days. This lengthy billing period results in the reimbursement of costs by clients 40 to 90 days after the costs were incurred, and contributes to the cash flow problems of LMIC. The billing period could be decreased by reducing the time allotted to project managers to review the accuracy of the billing costs. Additional consideration should be given to requesting payment by the clients within 10 to 15 days, since most clients are state agencies and are able to process the payments quickly after receiving the invoice. These steps would increase the turnaround of cash and provide the necessary funds for the payment of LMIC obligations.

- <u>Current practices do not comply with LMIC billing policy</u>. Policy #7 of the LMIC Billing Policy and Rate Schedule Manual states that in order to maintain an adequate cash flow in the service bureau account, billing will be done monthly. Some accounts were not billed monthly. In one example, for a project totaling $33,000, accounts were billed only periodically on an irregular schedule. Some projects ranging from $4,500 to $25,000, were billed only after completion of the work. The project managers have the discretion to decide each month whether project costs will be billed to the clients. This discretionary authority is not authorized by the billing manual and has resulted in inconsistent billing practices among the project managers, delaying receipt of cash to cover expenses incurred for the projects. A strict interpretation of the billing policy may result in the generation of numerous invoices for small amounts which would not be cost-effective. The billing manual should be revised to address such issues as minimum billing amounts and authorization for any billing exceptions. The discretionary authority of the project managers should be reduced, and projects with costs exceeding the minimum amount should be automatically billed unless an authorized exemption is obtained.

- <u>Projects are completed before client funding is guaranteed</u>. Some clients pay for LMIC projects from federal funding. Many of these projects are completed by the LMIC months before the clients receive the federal funding. In a sample of 10 accounts with overdue balances during fiscal year 1988, five projects were completed before the grant contracts were signed. LMIC assumes unnecessary risks when completing work on projects for which funding is not yet available. LMIC should either not start the project until the funds are available, or have the client guarantee funding from other sources, if appropriate, until the federal grant is received.

- <u>One client is receiving a discount which is not provided for in established billing procedures</u>. One state agency has a contract with LMIC totaling $180,000 for fiscal years 1988-1989, of which $108,000 is for computer services. This contract amounts to approximately 13 percent of the total billings for these fiscal years. LMIC has provided a discount on charges for services to this client during the term of the contract. The billing manual authorizes a "block time" discount for clients with projects requiring considerable processing time. Clients may apply for a block of time over a prearranged time period (night or weekend) for a particular project and be charged a set amount which represents a fraction of the normal amount. However, in this instance LMIC is allowing the client daytime computer time in addition to night or weekend time. This practice conflicts with the billing manual and may result in a type of discount not available to other customers. LMIC staff stated that other clients were offered this discount but none took advantage of it because it may result in additional costs during the early stages of a project. However, we believe if quantity discounts are going to be made available to clients, they should be established in the billing manual and made known to all customers.

Because of the problems mentioned above, current procedures do not provide a consistent and timely billing of fees and contribute to the cash flow problems of LMIC.

Our review of the fiscal year 1987 billings and payments found that 15 percent of all billings were paid over 40 days after the invoice date. The table below shows the number and amount of overdue payments made during fiscal year 1987:

	Payments made 1 to 39 days after due date	Payments made 40 to 79 days after due date	Payments made over 80 days after due date
Number:	130	37	9
Amount:	$159,768	$26,890	$12,025

Current LMIC collection procedures for overdue accounts include the project manager calling the client and sending overdue notices. The first notice is sent shortly after the due date, with repeat notices sent every six weeks thereafter. These procedures by themselves have been inadequate to reduce the number and amount of outstanding accounts. For 9 of the 16 months ending April 30, 1988, the LMIC revolving account had a negative cash balance. This has required the agency to hold back payment of bills, including rent payments in January and February of 1988, until sufficient fees were collected to make the payments.

LMIC should increase their efforts to collect fees on a timely basis. Minn. Stat. Section 116K.04, Subd. 5 allows LMIC to request advance payment by state agencies to cover the agency's estimated obligations. Advance payments would assist LMIC in the timely collection of fees, and would aid in maintaining a positive cash flow and cash balance in the account. Other possible alternatives would include charging interest on late accounts or refusing service to extremely delinquent accounts.

RECOMMENDATIONS

- LMIC should revise their billing procedures to include:

  -- reducing the project manager review time for project billing amounts and requesting payment by clients within 15 days;
  -- automatic billing of accounts with costs exceeding a minimum amount, unless an authorized exemption is obtained; and
  -- the requirement that projects will not be started unless adequate funding is available from the client.

- The LMIC policy and procedure manual should be updated to include all discounts provided to LMIC clients.

- LMIC should consider stronger collection procedures, such as requiring advance payment for services based on estimated costs.

2. PRIOR AUDIT FINDING PARTIALLY RESOLVED. The system of internal control for receipts of the State Planning Agency should be strengthened.

The State Planning Agency collected approximately $4.2 million in receipts from fees and assessments during fiscal years 1985 to 1987. Receipts are collected at the central office in the Centennial Building or at the Land Management Information Center in the Metro Square Building.

In our audit report for the fiscal year ended June 30, 1984, we identified a lack of separation of duties in the processing of receipts at the State Planning Agency. This problem has not been fully resolved. One individual at each location has the responsibility for collecting receipts, preparing the deposits, and posting the receipts to the accounts receivable records. For proper internal control, these duties should not be performed by the same individual, who might otherwise be in a position to perpetrate and conceal errors or irregularities. Internal control would be improved if someone independent of the receipts process would post the receipts to the accounts receivable records and reconcile cash receipts to statewide accounting records. The objective of the reconciliation process is to provide assurance that all receipts are properly deposited and accurately recorded in the correct account. In order to strengthen internal controls, the reconciliation should be completed by someone independent of the receipt process.

Preparation of a check listing is one method commonly used to reconcile receipts. Individual checks are entered daily onto the listing, and the amounts on the list are then compared to the amounts recorded on statewide accounting records. This process verifies that all receipts were accurately and properly recorded on statewide accounting records. Current practices at the two locations of the State Planning Agency are described below:

-- A mail listing is prepared by the individual processing the receipts at the central office. However, the check listing is not used for reconciling receipts or for any other function. Because someone independent of the receipt process is not using the check listing to reconcile the receipts to statewide accounting records, the State Planning Agency cannot determine if all receipts are accurately and properly recorded.

-- Receipts collected at the Land Management Information Center are posted to the accounts receivable records and sent by messenger to the central office for deposit. No check listing is prepared at this location. A check listing would serve as a basis to reconcile receipts to statewide accounting records and ensure that all checks sent with the messenger are received by the central office.

It would be more efficient if all receipts were collected at one location, with a receipt listing used as a basis for posting to the accounts. LMIC is scheduled to move to the central office in September 1988, which will allow more flexibility for the State Planning Agency in providing for a separation of duties.

To strengthen the internal control over receipts, someone independent of the receipt process at both locations should reconcile receipts to statewide accounting records.

RECOMMENDATION

- Internal control over the receipt process at the State Planning Agency could be improved by having a mail listing of receipts prepared daily at each location. This listing should be used by someone independent of the receipt process to:

    -- post receipts to the accounts receivable records; and
    -- reconcile receipts to the amounts recorded on statewide accounting records.

3. <u>PRIOR AUDIT FINDING PARTIALLY IMPLEMENTED. Controls over the fixed asset inventory at the State Planning Agency need to be improved.</u>

At November 30, 1987, the State Planning Agency owned approximately 600 pieces of office and computer equipment, costing $1.3 million. In our audit report for fiscal year 1984, we found that the controls over the fixed asset inventory were inadequate, and that the State Planning Agency did not comply with inventory guidelines issued by the Department of Administration. Agency staff subsequently developed a list designating fixed asset responsibilities to specific individuals. However, certain internal control concerns over fixed assets still remain. The following areas of insufficient controls or noncompliance with state administrative policies governing fixed assets were identified during our current audit:

- The State Planning Agency has not conducted a physical inventory recently. In 1985 the Department of Administration issued the Fixed Asset Records Management System (FARMS) Users Manual providing information and instructions on the proper management of state owned fixed assets. This manual requires that state agencies complete a physical inventory of their fixed assets at least once every two years with spotchecks conducted in the interim. A physical inventory serves to verify the existence of the fixed assets and helps to maintain the accuracy of the inventory records. Spotchecks serve as a means of maintaining the minimum accuracy levels of the fixed asset inventory between the completion of the physical inventories. Because the State Planning Agency has not taken a complete physical inventory in over two years, and did not complete inventory spotchecks, we are uncertain of the accuracy or reliability of their fixed asset records.

- Assets purchased through lease/purchase agreements were incorrectly recorded on the fixed asset listing. During fiscal year 1987, the State Planning Agency processed payments for three lease/purchase agreements totaling $34,121. The cost of two of the assets was incorrectly recorded on the fixed asset listing. Both principal and interest were included in the cost of one of the items, overstating its value on the FARMS listing by $2,534. Another item was recorded at a cost of $1,539. However, the purchase order included several items with costs totaling over $3,587. We were unable to reconcile the cost of the items to the amount recorded on FARMS. Agency personnel were unable to determine how they originally calculated the amount recorded on FARMS. The cost of any item added to the fixed asset listing should be based on the purchase price shown on the purchase order.

- The State Planning Agency does not monitor the transfer of fixed assets to other agencies. On October 1, 1987, the State Planning Agency transferred five assets to other state agencies. The items were not deleted from the State Planning Agency's FARMS listing as of November 30, 1987, resulting in an overstatement of their fixed asset inventory by $6,300. The inventory supervisor should have monitored the transfers of fixed assets to ensure that all items are removed from the inventory listing.

RECOMMENDATIONS

- The State Planning Agency should comply with Department of Administration guidelines and complete a physical inventory of all fixed assets once every two years, with inventory spotchecks during the period between physical inventories.

- Purchase orders should be reviewed to ensure that the proper cost of assets purchased through lease/purchase agreements is recorded on the fixed asset listing.

- The agency inventory coordinator should monitor all assets transferred to other state agencies to ensure that the assets are removed from the State Planning Agency's fixed asset listing.

4. <u>The State Planning Agency does not provide sufficient explanations to support department head expenditures</u>.

Minn. Stat. Section 15A.081 authorizes state department heads to use up to $1,500 per year of appropriated monies to pay certain expenses related to their position in accordance with guidelines established by the Commissioner of Finance. All expenditures must have a public purpose and must stand the test of public scrutiny. For 29 of 33 payments tested, there was insufficient explanation of the public purpose of the expenditures. State Planning Agency department head expenses were reimbursed using the employee expense reimbursement form. Explanations on the expense forms were limited to descriptions such as "meetings," "business lunch," or for such items as box lunches, flowers, and coffee. While these expenses may have been appropriate department head expenses, we could not verify the public purpose of the expenditures because of the limited explanation on the employee expense form. Department of Finance operating policy and procedure No. 06:05:27 requires preparation of form (FI-00071) Department Head Expense for these payments. Proper completion of this form would provide a better explanation of the costs charged to department head expense, and would document the public purpose of these expenditures.

RECOMMENDATION

- The State Planning Agency should complete the Department Head Expense form Fi-00071 when processing department head expenses, including sufficient explanation of the public purpose of the payment.

5. <u>The State Planning Agency has an excess balance in one federal account</u>.

In the past twenty years the State Planning Agency has been the recipient of grants from the federal Departments of Commerce, Health and Human Services, Housing and Urban Development, and other federal agencies. During this time period, significant changes occurred in accounting for federal grants. In the early 1970's state agencies commingled federal and state monies together in the same accounts. With the development of the statewide accounting system in 1973, a separate fund was created for federal funds. The establishment of the separate fund required each state agency to identify the amount of federal monies in various state accounts, and to transfer the federal funds into a federal account. The identification of federal funds was a difficult process because not only were federal and state monies commingled, but there may have been more that one federal grant in any given account.

STATE PLANNING AGENCY

The State Planning Agency completed this review process during the mid-1970's. Federal funds were identified and transferred to separate federal accounts. In the early 1980's the federal grantor agencies required more accurate reporting of the receipt and expenditure of grant funds. Because of these requirements, the State Planning Agency reviewed the federal accounts, and found excess or unidentified balances totaling approximately $30,000. In order to provide accurate reporting of grant activities in these accounts, the excess funds were removed and transferred into one federal account. The excess funds remain in the account as of June 30, 1988.

The State Planning Agency has not resolved the disposition of the excess funds in the federal account. Agency staff are unable to determine whether the excess funds are unexpended state or federal funds, and, if federal funds, from which federal agency they originated. The State Planning Agency has no authority to retain and use these funds and is ultimately responsible for determining their disposition. Since no federal agencies have pursued repayment of these amounts, it is likely that the state is entitled to the funds.

RECOMMENDATION

- The State Planning Agency should cancel the excess cash to the General Fund unless evidence exists that all or a part of the balance can be identified as directly related to a specific federal program.

III. STATUS OF PRIOR AUDIT RECOMMENDATIONS AND PROGRESS TOWARD IMPLEMENTATION

The system of internal control for receipts of the State Planning Agency should be strengthened.

1. In order to strengthen internal controls over receipts, the State Planning Agency should:

   - Centralize the responsibility of receiving funds and require a mail listing of receipts.

   - Ensure that there exists a proper segregation of duties; in part by having someone independent of the processing of receipts reconcile the mail listing and other supporting documentation to the statewide accounting records.

   - Require adequate documentation to substantiate that receipts are being deposited in accordance with Minn. Stat. Section 16A.125.

   - Comply with the Department of Finance operating policy and procedure 06:03:17 when setting or changing the land management information center (LMIC) service bureau fee structure.

   - Establish guidelines to ensure that LMIC invoices are prepared promptly at the end of each billing period and that clients pay invoices on a timely basis.

RECOMMENDATION PARTIALLY IMPLEMENTED. In fiscal year 1985, the State Planning Agency assigned to one individual the responsibility for receiving funds and preparing a mail listing for the central office. They also initiated procedures which provide documentation to substantiate the deposit of receipts in accordance with Minn. Stat. Section 16A.125. Since fiscal year 1985 the State Planning Agency has submitted the necessary reports and documentation required by the Department of Finance operating policy and procedure 06:03:17 when setting or changing the LMIC fee structure. LMIC currently prepares invoices monthly. However, the State Planning Agency does not prepare mail listings for receipts received at the Metro Square location, and has not provided for a segregation of duties including a reconciliation to statewide accounting records by someone independent of the processing of receipts. LMIC has not developed adequate policies to insure that clients pay invoices on a timely basis. See current findings #1 and 2.

Procedures for authorization and verification of disbursements need improvement.

2. To improve control over disbursements:

- State Planning Agency should insure that all purchase orders and invoices are approved by individuals on an authorized signature list maintained by the accounting section.
- Disbursements recorded on the statewide accounting system should be reviewed for propriety and accurate coding.
- One individual in each section should maintain a log to account for all purchase orders.
- The final approval for regional planning grant payments should be made by someone other than the grant administrator.

RECOMMENDATION IMPLEMENTED. In May 1985, the State Planning Agency prepared a list of individuals authorized to make purchases for each section. This list was updated in April 1988. The accounting section began distributing statewide accounting records in March 1985 to each section. The supervisors in each section review the payments for accuracy and propriety. In May 1985, one individual in each section was assigned the responsibility for maintaining purchase order forms. Due to the limited use of purchase orders, formal logs were determined to be unnecessary. Since 1985, the final approval for regional planning grant payments have been approved by an assistant commissioner.

Control over the fixed asset inventory at the State Planning Agency needs to be improved.

3. State Planning Agency should complete the physical inventory of fixed assets and in the process ensure that:

- all additions and deletions are properly recorded on the fixed asset records management listing;
- asset costs are accurate; and
- location code changes are recorded on the inventory system.

RECOMMENDATION NOT IMPLEMENTED. See current finding #3.

4. The agency should also continue to improve the accountability for fixed assets by assigning responsibility for them to specific individuals.

RECOMMENDATION IMPLEMENTED. On December 9, 1987, the State Planning Agency developed a list designating the responsibility for fixed assets to specific individuals.

STATE OF MINNESOTA
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(612) 296-3985

September 16, 1988

Claudia Gudvangen
Audit Manager
Office of the Legislative Auditor
Veterans Service Building
St. Paul, Minnesota 55155

Dear Ms. Gudvangen:

We appreciate the opportunity to respond to the financial and compliance audit prepared for the State Planning Agency by your office.

The audit is a valuable management tool for the Agency, as well as an important financial and compliance requirement for the State of Minnesota. We will incorporate the recommendations of the audit report to improve the management of the State Planning Agency.

While we will implement the procedural recommendations of the audit report for the billing practices of the Land Management Information Center, we conclude from our analysis that this alone will not resolve the problem of maintaining the cash flow of the revolving fund. LMIC's revolving fund cash flow problems are due, in the largest part, to the lack of opportunity to maintain a retained earnings fund. A portion of the problem in client payments is associated with the rigor with which the billings are made, but a larger part of the problem lies in delays within the the client's office. We calculate that even if all clients paid their bills within 40 days after invoice, the LMIC would still need a $120,000 reserve fund to cover cash flow needs.

We will implement the procedural recommendations of the audit report in respect to the LMIC through a clarification of our billing policy. Specifically:

- The LMIC will revise its billing procedures to:
  - Reduce the project manager's review time for project billing. The Service Bureau manager will be responsible for insuring timely project billing review, beginning October 1, 1988.

- The notice on the invoices to clients will be changed to request payment within 15 days. This change will be effective October 1, 1988.

- The billing manual will be revised by adding language providing for automatic billing of costs exceeding a minimum amount, unless an authorized exemption is obtained. The revision will be effective on October 1, 1988.

- Either a contract or a letter of intent will be required to be completed by the client prior to starting work on a project. Obtaining the contract or the letter of intent will be the responsibility of the Service Bureau manager. This requirement will be effective October 1, 1988.

- The billing manual will be updated to identify all discounts available to LMIC clients. This will be the responsibility of the Computer Research manager. The billing manual will be revised appropriately by October 1, 1988.

- The Service Bureau manager will instruct all project managers to solicit advance payment from clients, beginning October 1, 1988. As noted in discussions with your office, based on past experience we anticipate the response that it is against state and departmental policy to pay for services before they are delivered.

In respect to the remaining recommendations of the audit report, the State Planning Agency will:

- Reconcile receipt reports to the check listing. This was our practice prior to a turn-over in the Accounting Officer position. Beginning will July 1988 reports, the Accounting Officer again is doing this reconciliation.

  In addition, beginning with the mail listing of September 12, 1988, the Accounting Officer is also responsible for doing the accounts receivable postings for non-LMIC accounts. With the move of the LMIC to the Centennial Office Building on September 12, the State Planning Agency is consolidated in a single location with all receipts received at a single location.

- A complete physical inventory will be completed and FARMS will be brought up-to-date by December 31, 1988. The Agency's new Accounting Officer currently is learning FARMS in preparation for this effort.

- All department head expenses were made for legitimate purposes. However, we accept the conclusion that additional explanations and justifications should be included on the payment documents to provide this verification. The State Planning Agency will implement the recommendation that such explanations and justifications be included on department head payment documents, beginning in September 1988.

Finally, the State Planning Agency concurs with the recommendation in respect to excess cash in the federal account and will work out an acceptable solution with the Department of Finance by September 30, 1988.

Sincerely,

LANI KAWAMURA
Commissioner
(612) 297-2325