

**DEPARTMENT OF ADMINISTRATION
FINANCIAL AUDIT
FOR THE YEAR ENDED JUNE 30, 1989**

APRIL 1990

**Financial Audit Division
Office of the Legislative Auditor
State of Minnesota**

90-23

DEPARTMENT OF ADMINISTRATION

FINANCIAL AUDIT FOR THE YEAR ENDED JUNE 30, 1989

Public Release Date: April 20, 1990

No. 90-23

OBJECTIVES:

- **EVALUATE INTERNAL CONTROL STRUCTURE:** Controls over significant portions of the Computer Services Fund, the Plant Management Fund, the Central Motor Pool Fund, the Telecommunications Fund, the Central Stores Fund, the Risk Management Fund, and the State Printer Fund; controls over other Administration activities, including building code receipts, asbestos litigation receipts, emergency 911 receipts, postage clearing receipts and disbursements, personnel and payroll disbursements, equipment rental inventory, stripper well overcharge grants and building construction disbursements; and controls over general computer processing, materials management procurement, contract management, and real estate leases.
- **TEST COMPLIANCE WITH CERTAIN FINANCE-RELATED LEGAL PROVISIONS.**

CONCLUSIONS:

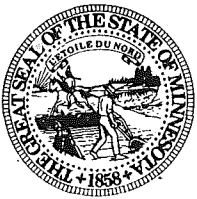
We found eleven areas where the internal control structure needed improvement:

- Unnecessary clearance to process transactions on the state's accounting and payroll systems.
- Computer services controls over purchasing, disbursements, consultant contract payments, and fixed assets are inadequate.
- Telecommunications controls over contracts and accounts receivable need to be improved.
- Printing services perpetual inventory controls need to be improved.
- Central mail needs to retain state agency mail slips.
- Building code and standards needs to improve internal controls over surcharges and fee receipts.

We found two areas where the department had not complied with finance-related legal provisions:

- Computer services staff did not pay vendors timely as required by the prompt payment law.
- The building road and standards division did not file a required federal report in a timely manner.

Contact the Financial Audit Division for additional information.
(612) 296-1730



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

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JAMES R. NOBLES, LEGISLATIVE AUDITOR

Senator John E. Brandl, Chairman
Legislative Audit Commission

Members of the Legislative Audit Commission

Ms. Sandra Hale, Commissioner
Department of Administration

Audit Scope

We have conducted a financial related audit of the Department of Administration for the period from July 1, 1988 to June 30, 1989. Our audit was limited to only that portion of the State of Minnesota financial activities attributable to the transactions of the Department of Administration, as discussed in the introduction. We have also made a study and evaluation of the internal control structure of the Department of Administration in effect at June 30, 1989.

We conducted our audit in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial activities attributable to the transactions of the Department of Administration are free of material misstatements.

As part of our study and evaluation of the internal control structure, we performed tests of the Department of Administration's compliance with certain provisions of laws, regulations, contracts, and grants. However, our objective was not to provide an opinion on overall compliance with such provisions.

Management Responsibilities

The management of the Department of Administration is responsible for establishing and maintaining an internal control structure. This responsibility includes compliance with applicable laws, regulations, contracts, and grants. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that:

- assets are safeguarded against loss from unauthorized use or disposition;

- transactions are executed in accordance with applicable legal and regulatory provisions, as well as management's authorization; and
- transactions are recorded properly on the statewide accounting system in accordance with Department of Finance policies and procedures.

Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

Internal Control Structure

For purposes of this report, we have classified the department's significant internal control structure policies and procedures in the following categories:

Controls over significant Internal Service Fund activities:

- Computer services receipts and accounts receivable;
- Computer services disbursements and accounts payable;
- Computer services fixed assets;
- Plant management receipts and accounts receivable;
- Plant management disbursements and accounts payable;
- Plant management inventory;
- Central motor pool receipts and accounts receivable;
- Central motor pool fixed assets;
- Telecommunications receipts and accounts receivable;
- Telecommunications disbursements and accounts payable;
- Central stores receipts and accounts receivable;
- Central stores disbursements and accounts payable;
- Central stores inventory;
- Risk management receipts and accounts receivable;
- Risk management disbursements and claims payable;
- State printer receipts and accounts receivable;
- State printer disbursements and accounts payable; and
- State printer inventory;

Controls over other significant Department of Administration activities:

- Building code receipts;
- Asbestos litigation receipts;
- Emergency 911 receipts;
- Postage clearing receipts and disbursements;
- Personnel and payroll disbursements;
- Equipment rental inventory;
- Stripper well oil overcharge grants; and
- Building construction project disbursements.

Controls over significant statewide activities for which the Department of Administration cooperates with state agencies to provide central processing:

- Intertech general computer processing controls;
- Materials management procurement;
- Contract management contracts; and
- Real estate management leases.

For the statewide activities shown above, the department relies on other state agencies to determine the need for the purchase and disbursement controls. These agency controls were not evaluated as part of this audit.

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

Qualification

The department identified several instances where employees of its travel management division improperly used state time and equipment. The department initiated an investigation after receiving allegations about employee misconduct. The investigation revealed that division employees sometimes used state vehicles and other state property to conduct personal business. It also identified several occasions when employees had worked on personal vehicles in the state's auto shop. The department has disciplined the travel management employees involved in the improper activities. The department kept us informed as its investigation proceeded. We believe that the investigation has been thorough and the corrective actions appropriate.

During the investigation, the commissioner revealed that occasionally her personal vehicle also had been serviced and washed in the state shop. She justified the service because she used her vehicle to conduct state business and had not routinely claimed mileage reimbursements as compensation. Despite her motivation, state travel policies do not allow the commissioner to have her vehicle serviced in the state shop. After realizing that travel management employees had misused state time and equipment, the commissioner felt that her actions may have sent an inappropriate message to the employees. As a result, she disciplined herself and released a public statement concerning her actions.

Conclusions

Our study and evaluation disclosed the conditions discussed in findings 1 to 11 involving the internal control structure of the Department of Administration. We consider these conditions to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of

Senator John E. Brandl, Chairman
Members of the Legislative Audit Commission
Ms. Sandra Hale, Commissioner
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the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data.

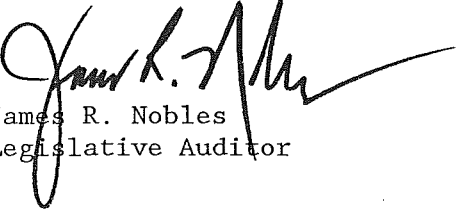
A material weakness is a reportable condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial activities being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We believe the reportable conditions described in findings 1 to 5 are material weaknesses.

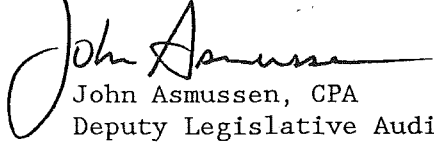
We noted certain other matters involving the internal control structure and its operation that we reported to the management of the Department of Administration at the exit conference held on March 20, 1990.

The results of our tests indicate that, except for the issues cited in the Qualification paragraph and cited in findings 6 and 12, with respect to the items tested, the Department of Administration complied, in all material respects, with the provisions referred to in the audit scope paragraphs. With respect to items not tested, nothing came to our attention that caused us to believe that the department had not complied, in all material respects, with those provisions.

This report is intended for the information of the Legislative Audit Commission and management of the Department of Administration. This restriction is not intended to limit the distribution of this report, which was released as a public document on April 20, 1990.

We would like to thank the staff of the Department of Administration for their cooperation during this audit.


James R. Nobles
Legislative Auditor


John Asmussen, CPA
Deputy Legislative Auditor

END OF FIELDWORK: January 31, 1990

REPORT SIGNED ON: April 12, 1990

DEPARTMENT OF ADMINISTRATION

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AUDIT PARTICIPATION

The following members of the Office of the Legislative Auditor participated in this audit:

John Asmussen, CPA	Deputy Legislative Auditor
Jeanine Leifeld, CPA	Audit Manager
Brad White, CPA	Auditor-in-Charge
Mike Anderson, CPA	Staff Auditor
Chris Buse, CPA	Staff Auditor
John Wicklund, CPA	Staff Auditor
Dan Quandt	Staff Auditor
Susan Rumpca	Staff Auditor
Stacy Milan	Intern
Steve Nartker	Intern

EXIT CONFERENCE

The findings and recommendations in this report were discussed with the following staff of the Department of Administration on March 26, 1990:

Sandra Hale	Commissioner
Jeff Zlonis	Deputy Commissioner
Larry Grant	Assistant Commissioner
Jim Pederson	Assistant Commissioner
Judy Pinke	Assistant Commissioner
Karen Carpenter	Administrative Services Director
Don Klein	Fiscal Services Director

DEPARTMENT OF ADMINISTRATION

INTRODUCTION

The Department of Administration is a central staff agency responsible for providing management and general support services for state departments and agencies. Administration carries out responsibilities in such diverse areas as information management, grounds services, printing and mailing services, and employee assistance. Department activities are divided into seven general categories or bureaus as follows:

Operations Management provides central services to agencies of state government.

Intertechnologies Group aids state and local government units with their use of information technology and resources.

The Information Policy Office coordinates the development of a comprehensive, statewide information and technology structure.

Property Management provides management of the state's real property, including both land and physical plant.

Management Analysis consults and advises the Governor, Legislature, and agencies in making management decisions.

Administrative Services provides internal financial, personnel, and training services to the department's approximately 750 employees.

The Commissioner's Office provides the leadership for the department. The current commissioner, Sandra Hale, has served in that capacity since 1983.

Receipts collected by the Department of Administration during fiscal year 1989 totalled \$96,750,288 as recorded in the statewide accounting system disbursements (excluding statewide building appropriations) for the department during the same period, as recorded in the statewide accounting system, were as follows:

Personnel Services	\$ 27,314,321
Purchased Services	22,622,930
Travel and Fees	24,744,102
Supplies	7,834,863
Equipment	15,505,207
Grants	10,540,340
Refunds	223,681
Indirect Cost	<u>4,016,510</u>
TOTAL	<u>\$112,801,954</u>

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II. CURRENT FINDINGS AND RECOMMENDATIONS

1. Several Administration staff have unnecessary clearance to process transactions on the state's accounting and payroll systems.

Several Administration employees have unnecessary clearance to process transactions on the Statewide Accounting (SWA) and Payroll/Personnel (PPS) systems. The Department of Finance controls access to SWA and PPS systems. Agencies must update the finance security file for new operators and cancel employees who transfer or leave state service. Administration's Administrative Services Bureau enters all accounting and payroll transactions for the department. Personnel services employees enter input all PPS payroll transactions. Fiscal services staff input SWA financial transactions.

We identified nine employees with unnecessary clearance to process transactions. Two employees of the print communications division have inappropriate clearance to process SWA transactions. In addition, seven employees have inappropriate clearance to process payroll transactions. Four of these employees work in divisions outside the Administrative Service Bureau. The other three employees work in fiscal services. They have clearance to process all types of payroll transactions, even though they only need clearance to process payroll expense transfers. Generally, only personnel services staff should have the clearance to process most types of payroll transactions.

No one within the Department of Administration has been assigned responsibility to monitor the SWA and PPS security files. An authorized person should periodically obtain and review the Department of Finance security file record for each system. Transaction clearance should only be given to staff who need access to perform job responsibilities. Even the most effective internal controls can be circumvented when unnecessary staff have the ability to process transactions.

RECOMMENDATIONS

- The department should cancel transaction authority for staff not responsible for processing or maintaining transactions. SWA/PPS transaction clearance should only be authorized for staff who need access to perform job responsibilities.
- The department should assign staff responsibility to monitor the SWA and PPS security files. The Department of Finance security file record should be periodically obtained and reviewed.

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INTERTECHNOLOGIES GROUP - COMPUTER SERVICES

The Intertech Group (Intertech) is responsible for operating the state's central computers and coordinating all computer systems used within the state.

2. Computer services staff do not perform several purchasing and disbursement control procedures.

Intertech staff are not performing some purchasing and disbursement control procedures. Generally, the account managers initiate purchases, receive incoming merchandise, and authorize payments. The Intertech business services staff process payments to vendors. Many account managers assume business services staff perform certain control procedures. On the other hand, the business services staff often assumes that once an account manager has authorized a payment, the control procedures have been performed by the account manager. The account managers do not always prepare purchase orders and receiving documentation. However, the business services staff routinely process payments despite the fact that these key documents are missing. This lack of clear lines of responsibility makes the division vulnerable to the risk that financial transactions may not be paid correctly or methods may not comply with finance-related legal provisions.

Written and signed purchase orders are not always prepared. For example, one account manager ordered \$830,770 of goods from a vendor throughout fiscal year 1989 without completing any purchase orders. However, the business services staff still processed the payments for these goods. Purchase orders are necessary to verify that proper bidding procedures were used, if needed, the purchases were necessary and were authorized, and prices and quantities are correct before vendor payments are made. Without using purchase orders, staff could make unauthorized purchases.

In addition, staff often do not sign and date packing slips or other receiving documentation for incoming goods. Receiving evidence was missing or improperly created for 28 of 55 payments tested. In some cases, receiving reports were completed and signed in the name of another employee. Packing slips serve as the most efficient form of receiving evidence and nearly all shipments have them. Without this evidence, business services clerks may pay for goods never delivered or received. The documentation is also necessary to ensure proper year end cutoff. The date goods or equipment arrive (the occurrence date) is the basis for accruing assets and expenses into the proper period for financial statements. Incorrect occurrence dates resulted in the June 30, 1989 accounts payable balance being understated by \$106,560.

RECOMMENDATIONS

- Intertech management should clarify responsibility for key internal control procedures between the Computer Services account managers and Business Services staff.

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RECOMMENDATIONS (Continued)

- Purchase orders should be prepared for all purchases.
- Signed and dated packing slips or other receiving documentation should be prepared when goods arrive.

3. Computer Services disbursement controls are inadequate.

Disbursement controls are not effective to prevent erroneous or duplicate payments. The business services clerks do not always match vendor invoices with the related purchase orders and evidence of receipt of goods before processing vendor payments. Accordingly, they may process payments for incorrect quantities or prices. We noted some quantity and price differences between purchase orders, invoices, and receiving reports during our tests.

In addition, the business services clerks do not maintain an effective accounts payable system. They do not remove purchase orders which have been paid from the open purchase order file. They do not permanently attach the purchase orders to the related vendor invoices and receiving documentation. The clerks also do not note partial payments against open purchase orders or contracts. As a result, the Computer Services Fund paid \$161,900 of duplicate payments to vendors during fiscal year 1989.

RECOMMENDATIONS

- The business services clerks should not process invoices without a comparison to the related purchase order and evidence of receipt of goods. Completed purchase orders should be removed from the open purchase order file.
- The business services clerks should post all partial payments against the related purchase orders or contracts.

4. Internal controls over consultant contract payments are weak.

Data processing consultant expenses out of the Computer Services Fund during fiscal year 1989 increased 128 percent to \$4.76 million. Intertech hires the consultants to provide computer systems expertise to state agencies. The Computer Services Fund pays the consultants directly, and then bills the appropriate state agencies. This shared responsibility increases the need for effective controls to ensure consultant hours and rates are accurate.

Internal controls over consultant hours and rates paid by the Computer Services Fund for data processing services are not effective. Agencies

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report hours worked by consultants to Intertech weekly. Intertech employees compare invoiced hours for each consultant to weekly totals reported. This comparison ensures that consultant costs are accurately billed to the agencies. However, Intertech staff does not verify that the reported hours have been verified by an authorized agency supervisor or project leader. In addition, Intertech does not compare the invoices to the contracts to determine if billing rates are accurate. Finally, no one monitors consultant contract balances. Absence of these controls increases the risk of excessive or improper payments to consultants.

Intertech does not effectively monitor the financial status and progress of consultant projects. First, monitoring of contract balances is weak. In one case, May and June consulting invoices, totalling \$64,074, were not paid until August because contract funds for the year in which the services were rendered were insufficient. Intertech staff did not attempt to amend the contract until after the invoices were received. Also, in three instances, the account clerks coded and paid consulting invoices out of the wrong contract encumbrance. In another case, Intertech permitted consultants to begin working before the contract was fully executed and the related funds were encumbered. Minn. Stat. Section 16A.15 Subd. 3. prohibits agencies from incurring obligations before having funds encumbered.

In addition, verification of hours worked and billing rates is inadequate. In one case, a consultant working at the Department of Human Services billed the Computer Services Fund for 3,268 hours during fiscal year 1989 for a total cost of \$163,400. In 19 of 49 cases, the consultant's time sheets had not been signed by a Human Services employee directly involved in the project on which the consultant was working. In addition, the consultant was classified as a systems analyst, which has a contract pay rate of \$36 per hour, but was billing the Computer Services Fund for \$50 per hour. The Intertech manager who approved the consultant's invoices did not question either the number of hours being billed or the consultant's pay rate. In another case, the Computer Services Fund paid a consultant for 11 hours at \$55 per hour when the contract rate was only \$48 per hour.

RECOMMENDATIONS

Intertech should effectively monitor the status of all consultant projects by:

- Monitoring contract balances to ensure that funds are available to pay consultant invoices. They should prohibit consultants from working without fully executed contracts.
- Working with other agencies to make sure that all computer consultant hours are certified by authorized agency personnel.
- Comparing consulting invoices to the contracts to determine if rates are accurate.

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5. PRIOR FINDING NOT RESOLVED: Intertech does not effectively record and control its fixed assets.

Intertech fixed asset systems are inefficient and inaccurate. Intertech maintains several systems to control and value their fixed assets. The Intertech accountants maintains a fixed asset control account within his general ledger. Intertech's facilities services section maintains a microcomputer inventory system which contains detailed information for each asset, including cost and depreciation. Facilities services also maintains a fixed asset "audit file" which documents the physical location of each asset for inventory control purposes.

Differences between the accountant's general ledger control account and the microcomputer inventory system detail have not been adequately resolved. In August 1989, the Intertech accountant identified a \$1.79 million discrepancy between the general ledger and microcomputer totals. It appears that over \$1.1 million in assets which had been received in April 1989 or earlier had not been added to the facilities services inventory system. Of the total discrepancy, a \$344,618 difference was never resolved and was ultimately written off. The Computer Services Fund accountant relies on facilities services to keep accurate detailed fixed asset records. The computer inventory system also generates depreciation figures for the financial statements. Failure to update purchases also causes inaccurate depreciation for financial statements. To improve controls and assure accurate financial data, the facilities services staff must update the computer inventory system immediately. Differences between the computer system and the fixed asset control account must be investigated and corrected.

Intertech keeps a separate fixed asset list called the "audit file" which records the physical location of assets. This system is not effective. We tested 20 fixed assets purchased during fiscal year 1989 and found only one was included on the audit file. To improve physical controls over assets, facilities services personnel must keep accurate, up-to-date records of the physical locations of all fixed assets.

RECOMMENDATIONS

- Intertech should improve accounting and control over their fixed assets by:
 - promptly recording all fixed asset purchases; and
 - promptly investigating and resolving all differences between the inventory detail records and the general ledger control account.

6. Computer Services staff do not pay vendors promptly.

Computer Services does not pay vendors timely. As a result, the June 30, 1989 accounts payable balance tripled from the prior year to over \$1.5 million. Vendors were paid late in 8 of 37 transactions we tested.

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Computer Services also made all 51 fiscal year 1989 installment purchase payments after their scheduled due dates. In one case, three monthly payments totalling \$249,395 were paid together. This combined payment was 20 days after the third monthly payment's due date. During fiscal year 1989, the Computer Services Fund lost 45 prompt payment discounts totalling \$2,186. For 7 of these lost discounts, totalling \$396, the accounts payable clerk did not code these invoices at their discounted amount.

Minn. Stat. Section 16A.124 Subd. 3. requires state agencies to pay invoices so vendors receive payment within the early payment discount period. If there is no discount period, state agencies must pay the vendor within 30 days after receiving the invoice. Vendors can assess interest charges if not paid by within 30 days.

RECOMMENDATION

- Computer Services staff should pay vendors timely and take advantage of prompt payment discounts when available.

INTERTECHNOLOGIES GROUP - TELECOMMUNICATIONS

The telecommunications division of the Intertechologies Group is responsible for the planning, design, acquisition, and approval of telecommunications services for state agencies.

7. A telecommunications contract was not properly funded and procured.

During fiscal year 1989, the Telecommunications Fund entered into a contract for financial consulting. This consultant ultimately became an Intertech employee. We believe that this contract was improper in three respects.

First, the services included in the contract were not competitively bid. The contract, originally for \$10,000, was intended to "develop an on-going process for monitoring the telecommunications funds and recommending the development and implementation of PC-based financial reporting systems". Although telecommunications believes that this was a "sole source" service, we question whether the services could not have, in fact, been provided by any number of qualified vendors.

Second, the original contract was amended to provide the contractor with an additional \$10,000. However, scope of the work to be performed did not change as a result of the amendment. This does not comply with Minn. Stat. Section 16B.17, Subd. 3, which prohibits contracts for services provided as a product of a prior contract. Telecommunications staff told us that the amendment was necessary because of poor planning and estimating of the amount of work needed before the original contract was signed.

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Finally, the contract was paid from the wrong fund. The Computer Services and General Funds paid for the work performed on telecommunications' activities. The Telecommunications Fund must reimburse the other funds for the \$20,000 expense.

RECOMMENDATIONS

- Telecommunications should improve contract procedures by:
 - competitive bidding contracts whenever practicable;
 - limiting contract amendments to situations where additional duties or responsibilities have been assigned; and
 - charging all contractual services to the proper fund.

8. PRIOR FINDING NOT RESOLVED: Telecommunications Fund accounts receivable controls require improvement.

Telecommunications accounts receivable procedures and controls are weak in two areas. First, the fiscal services general ledger accounts receivable total was not reconciled to the detailed accounts receivable records. Second, delinquent accounts receivable have not been pursued and either collected or written off.

The telecommunications detailed subsidiary accounts receivable records are not reconciled to general ledger total used on the financial statements. As of November 1989, an unexplained difference of \$78,063 existed between the two totals. The subsidiary records are vulnerable to errors because of large volume of transactions are posted to these records each month. A periodic comparison of subsidiary and general ledger balances will allow staff to detect any posting errors and help to ensure that all agencies are properly billed for telecommunications services.

In addition, telecommunications management does not pursue collection of delinquent accounts receivable or initiate revenue adjustments when appropriate. As of October 20, 1989, \$161,831 of the outstanding June 30 accounts receivable balance had not been collected. Much of this remaining outstanding balance may be invalid and not be collectible. These old and invalid receivable amounts cause strain on the subsidiary recordkeeping from repeated tracking of unpaid items. The management of telecommunications should periodically review old outstanding accounts receivable and determine the portion which they will collect. They should issue credits or write-off any unpaid portions which will not be collected. Prompt resolution of uncollected amounts is important to be sure that telecommunications revenues are accurate and fairly presented on the financial statements.

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RECOMMENDATIONS

- Telecommunications management should periodically review all delinquent telecommunications accounts receivable. They should pursue collection on all valid receivables. They should issue credits or write-off uncollectible accounts receivable as necessary.
- Telecommunications should periodically reconcile the detailed accounts receivable records with the general ledger control account. All significant variances should be investigated and resolved.

OPERATIONS MANAGEMENT - PRINT COMMUNICATIONS

The Print Communications Division consists of several component services, including printing, duplicating, office equipment rental, and mailing services.

9. PRIOR FINDING PARTIALLY RESOLVED: Printing services perpetual inventory controls need to be improved.

Printing services maintains an inventory of paper, inks, and other supplies required in its printing process. The inventory is priced on a perpetual, computerized inventory system using the "moving weighted average cost method". This method computes a new unit cost amount after each purchase.

Internal controls over inventory are weak and require improvements in the following areas:

- Printing services employees do not pursue and resolve inventory differences. They perform periodic physical counts throughout the year. Even though the staff may detect differences between perpetual inventory balances and quantities on hand, they do not pursue these differences. Rather, they only adjust the inventory records to agree with the quantity on hand. These adjustments do not achieve effective inventory control and, in fact, may conceal the actual reasons for shortages. Printing services management should critically review any major adjustments to the perpetual inventory records and pursue the causes whether the differences were caused by entry errors, physical count errors, issuance errors, or theft.
- Employees often do not enter purchases into the inventory system until several weeks after delivery. Purchases should be promptly entered into the inventory system to avoid omission of purchases and to provide perpetual records which more consistently follow the actual flow of warehouse materials.

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- Employees do not always enter purchases into the perpetual inventory system accurately. They frequently enter estimated purchase order amounts and do not update for differences in actual invoice costs. Thus, inventory values and customer billings may be inaccurate.
- Finally, printing services does not adequately control materials which have been issued to the printing copy centers. No one compares inventory issued to the copy centers to the quantities used. Management cannot determine whether excessive spoilage or other irregularities have occurred.

RECOMMENDATIONS

- Inventory control should be improved by:
 - prompt investigation of differences between perpetual inventory balances and physical counts;
 - timely entry of purchases into the perpetual inventory system;
 - accurate perpetual inventory entries based on actual invoice costs;
 - periodic comparison of the quantity of materials issued to and used by each copy center.

10. Central Mail does not retain state agency mail slips.

Administration does not retain any original documentation supporting the amounts billed to agencies from central mail.

Agencies complete two part mail slips which identify the number and types of items they are sending to central mail. They send the original of each mail slip to central mail along with the items to be mailed. The agency keeps the mail slip copy. Central mail staff enter all incoming mail slips into a microcomputer which summarizes each agency's biweekly postal charges and prepares the invoices. However, central mail sends the original mail slips back to the agency along with the invoice. Since Administration does not retain these mail slips, it has no support for the invoices they send to state agencies. They cannot effectively resolve billing errors or disputes without retrieving the mail slips from the agencies.

RECOMMENDATION

- Department of Administration staff should retain original mail slips which support postage charges billed to state agencies.

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PROPERTY MANAGEMENT - BUILDING CODE AND STANDARDS DIVISION

The building code and standards division administers the state building code which sets construction standards for buildings, manufactured housing, and other structures.

11. Internal controls over surcharges and fee receipts require improvement.

The building code and standards division receipts are not adequately controlled. The division collects surcharges from municipalities along with other various fees. The division collected \$2,161,093 of these surcharges during fiscal year 1989.

Controls over incoming receipts are weak because the division routinely sends receipts to be deposited with the State Treasurer's Office through the state's interoffice mail. This results in additional security risk from loss or theft. Also, as a result of the mail delay, receipts are not deposited timely as required by Minn. Stat. Section 16A.275.

In addition, the division does not effectively reconcile receipt records with the related deposit transactions. For example, six deposits we tested included checks which had never been recorded in the division's check register. Someone independent of the receipts process should total the division's check register by fee type and compare to deposit slip totals. An employee should also compare the deposit slips to the state-wide accounting system monthly receipt transaction reports, as required by Department of Finance Operating Policy and Procedure #06:06:03. Without these comparisons there is no assurance of proper deposit of all receipts.

RECOMMENDATIONS

- Building code division staff should improve internal control over surcharges and fee receipts by:
 - directly delivering deposits to the State Treasurer's Office or to a local depository bank approved by the Department of Finance;
 - recording all incoming receipts in the check register;
 - depositing daily as required by Minn. Stat. Section 16A.275.; and
 - comparing SWA deposit transactions to deposit slips and check register monthly.

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12. The building code and standards division is not in compliance with federal reporting requirements.

The building code and standards division is not in compliance with reporting requirements set forth in a written agreement with the United States Department of Housing and Urban Development (HUD). The division collected over \$20,000 in fiscal year 1989 for services reimbursed under the National Mobile Home Construction and Safety Act of 1974. However, financial status reports have not been completed and filed timely with the federal agency as required.

The HUD agreement contains an annual financial reporting requirement. It states that an annual financial status report must be submitted 90 days after conclusion of the state's fiscal year. The agreement requires that the report contain cumulative program spending information in compliance with OMB financial reporting requirements. However, the division's fiscal year 1988 report included only current year balances and not cumulative balances. In addition, as of December 27, 1989, the division had not prepared and filed the fiscal year 1989 financial status report.

RECOMMENDATION

- The building code division should complete the financial status report for fiscal year 1989 as required. Future reports should be filed timely with the federal government and should include all required information.



**Department of
Administration**

April 6, 1990

**OFFICE OF
THE COMMISSIONER**

Architectural Design
Building Code
Building Construction
Contracting
Data Practices
Data Processing
Employee Assistance
Energy Conservation
Fleet Management
Information Management
Inventory Management
Local Government Systems
Management Analysis
Plant Management
Printing & Mailing
Public Documents
Purchasing
Real Estate Management
Records Management
Resource Recycling
State Bookstore
Telecommunications
Volunteer Services

Jeanine Leifeld, Audit Manager
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1st Floor, Veterans Service Building
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St. Paul MN 55155

Dear Jeanine:

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 1989 financial statements. The assistance given to this department by the audit staff 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.

Sincerely,

A handwritten signature in cursive script that reads "Sandra J. Hale".

Sandra J. Hale, Commissioner
Department of Administration

enclosure

SJH/DK:bc

RECOMMENDATION #1

The department should cancel transaction authority for staff not responsible for processing or maintaining transactions.

The department should assign staff responsibility to monitor the SWA and PPS security files.

Response:

Clearance has been revoked for the persons identified in recommendation #1. In addition, other clearances have been revoked or modified where necessary.

This recommendation was implemented in March, 1990 by Larry Freund, Fiscal Services, who will be the staff person monitoring the SWA and PPS security files at least every six months.

RECOMMENDATION #2

InterTech Management should clarify responsibility for key internal control procedures between the Computer Services account managers and Business Services staff.

Purchase orders should be prepared for all purchases.

Signed and dated packing slips or other receiving documentation should be prepared when goods arrive.

Response:

InterTech has implemented some procedures, such as a clear form to accompany invoice approvals and notice of requirement to complete Department Purchase Orders for all purchases, and will provide a complete set of guidelines before the beginning of Fiscal Year 1991.

Person responsible: Cris Ross
Implementation Date: June 1, 1990.

Business Services has notified Computer Services account managers that DPO's are required for purchases. Business Services will hire a staff person to prepare DPO's for all purchases.

Person responsible: Char Clark
Implementation date: July 1, 1990

Business Services and Facilities Services staff are jointly developing procedures for receivables control.

Persons responsible: Char Clark and Don Duffy
Implementation Date: July 1, 1990

RECOMMENDATION #3

The Business Services clerks should not process invoices without a comparison to the related purchase order and evidence or receipt of goods. Completed purchase orders should be removed from the open purchase order file.

The Business Services clerks should post all partial payments against the related purchase orders or contracts.

Response:

Purchase order and receiving evidence procedures are being established, as described above. Control procedures for matching documentation will be established.

Person responsible: Char Clark
Implementation date: July 1, 1990

This procedure has been established. All partial payments against the related purchase orders or contracts are now being posted.

Person responsible: Char Clark
Implementation date: February 1, 1990

RECOMMENDATION #4

InterTech should effectively monitor the status of all consultant projects by:

Monitoring contract balances to ensure that funds are available to pay consultant invoices. They should prohibit consultants from working without fully-executed contracts.

Working with other agencies to make sure that all computer consultant hours are certified by authorized agency personnel.

Comparing consulting invoices to the contracts to determine if rates are accurate

Response:

Business Services staff is implementing processes to monitor contracts for dollar availability, expiration date, and effective start dates.

Person responsible: Bryan Eastep
Implementation date: June 1, 1990

A procedure for verifying weekly time sheets was established March 1, 1990.

Persons responsible: Bryan Eastep and Norm McCarthy
Implementation date: March 1, 1990

A procedure for matching consultant billing rates to contract rates was established November 15, 1989. The problem has occurred when InterTech, an authorized agency representative, and the contractor agree to change a billable rate. Business Services staff and Applied Computing Technologies staff have cooperatively developed procedures to manage and document these necessary changes, and to make contract modifications as necessary.

Persons responsible: Bryan Eastep and Norm McCarthy.
Implementation date: November 15, 1989

RECOMMENDATION #5

InterTech should improve accounting and control over their fixed assets by:

Promptly recording all fixed asset purchases; and

Properly investigating and resolving all differences between the inventory detail records and the general ledger control account.

Response:

Facilities Services staff has completed an internal audit matching all fixed asset records to SWA payment records for Fiscal Years 1988, 1989, and 1990. Facilities Services has developed procedures to match DPO's, invoices, receiving information, and SWA transactions to entries on the PC-based inventory system. Facilities Services is developing a comprehensive fixed asset control system to coordinate with Business Services and other InterTech staff.

Person responsible: Don Duffy
Implementation date: July 1, 1990

RECOMMENDATION #6

Computer Services staff should pay vendors timely and take advantage of prompt payment discounts when available.

Response:

Prompt payment declined in July - September 1989. Systems described have had improved accountability and control, and prompt payment for the Computer Revolving Fund was 94% in February, 1990.

Person responsible: Char Clark
Implementation date: May 1, 1990

RECOMMENDATION #7

Telecommunications should improve contract procedures by:

Competitive bidding contracts whenever practicable;

Limiting contract amendments to situations where additional duties or responsibilities have been assigned; and

Charging all contractual services to the proper fund.

Response:

InterTech will establish procedures for contract monitoring and management, described under finding #4.

Person responsible: Bryan Eastep
Implementation date: June 1, 1990

The Telecommunications Revolving Fund will reimburse the Computer Services Fund and the Telecommunications General Fund for the \$20,000 expense

Person responsible: Cris Ross
Implementation date: April 30, 1990

RECOMMENDATION #8

Telecommunications management should periodically review all delinquent telecommunications accounts receivable. They should pursue collection on all valid receivables. They should issue credits or write-off uncollectible accounts receivable as necessary.

Telecommunications should periodically reconcile the detailed accounts receivable records with the general ledger control account. All significant variances should be investigated and resolved.

Response:

Periodic reviews of all delinquent accounts receivable will be made and collections will be pursued in all valid receivables. Credits or write-off of uncollectable accounts receivable will be made as necessary. Accounts receivable detail will be periodically reconciled with the general ledger control account.

A monitoring and reporting system will be put in place.

Person responsible: Cris Ross
Implementation date: July 1, 1990

RECOMMENDATION #9

Inventory control should be improved by:

Prompt investigation of differences between perpetual inventory balances and physical counts;

Timely entry of purchases into the perpetual inventory system;

Accurate perpetual inventory entries based on actual invoice costs;

Periodic comparison of the quantity of materials issued to and used by each copy center.

Response:

Recommendation has been implemented.

The persons responsible: the warehouse supervisor, Tom Vesely and Jim Joiner.

RECOMMENDATION #10

Department of Administration staff should retain original mail slips which support postage charges billed to state agencies.

Response:

At the present time, a department makes out their mail slips in duplicate, sending the original to Central Mail and retaining a copy. The mail is processed against that mail slip and any changes are noted on the original. Twice a month the original mail slip is totaled and charged out, along with a computer generated invoice. The invoice and the original mail slip is returned to the department for payment. The department's accounts payable unit reports any discrepancies to Administration, Fiscal Services and they in turn consult with Central Mail.

Each month there are between 8,000 and 9,000 of these mail slips processed, or over 100,000 per year. In the past year, there were only two that resulted in discrepancies. When we have a discrepancy, it makes more sense to have the department Xerox a copy to us. If we adopt the suggestion of triplicate mail slips it would result in the following:

Added expense for each department to purchase triplicate mail slips rather than duplicate.

Production hours to separate the two copies, sending one to the department and the other to be retained by whomever.

Storage space for over 100,000 slips per year

THEREFORE: Central Mail does not intend to retain state agency mail slips. It does not make sense to handle and save 100,000 forms per year in order to be able to correct two billing errors per year. It is much more cost effective to go to the agency for copies of the mail slips on the rare occasions when billing errors need to be resolved.

RECOMMENDATIONS #11

Building Code Division staff should improve internal control over surcharges and fee receipts by:

Directly delivering deposits to the State Treasurer's Office or to a local depository bank approved by the Department of Finance;

Recording all incoming receipts in the check register;

Depositing daily as required by Minn. Stat. Section 16A.275.; and

Comparing SWA deposit transactions to deposit slips and check register monthly.

Response:

The First National Bank of St. Paul was established as the division's local depository February 5, 1990.

All incoming receipts are recorded in the division's check register upon receipt by Gloria Safford.

Daily deposits of receipts in local depository by Janice Johnson, commenced February 5, 1990.

Deposit transactions are reconciled with check register every 30 days by Peggi White, Office Manager.

RECOMMENDATION #12

The Building Code Division should complete the financial status report for Fiscal Year 1989 as required. Future reports should be filed timely with the federal government and should include all required information.

Response:

The financial status report to H.U.D. for fiscal 1989 has been provided on old forms (H.U.D.'s) as H.U.D. did not send new reporting forms because they were not aware of our failure to file.