

**DEPARTMENT OF ADMINISTRATION
FINANCIAL AUDIT
FOR THE YEAR ENDED JUNE 30, 1991**

MAY 1992

Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

92-28

SUMMARY

State of Minnesota

Office of the Legislative Auditor

Centennial Office Building • St. Paul, MN 55155

612/296-4708

DEPARTMENT OF ADMINISTRATION

FINANCIAL AUDIT FOR THE YEAR ENDED JUNE 30, 1991

Public Release Date: May 8, 1992

No. 92-28

OBJECTIVE:

- EVALUATE INTERNAL CONTROL STRUCTURE: Controls over significant portions of the Operations Management Bureau and the Administrative Services Division; controls over other Administration activities including computer services receipts and professional/technical services disbursements, plant management receipts, statewide building construction repairs and architectural/engineering services disbursements, and statewide real estate lease disbursements.
- TEST COMPLIANCE WITH CERTAIN FINANCE-RELATED LEGAL PROVISIONS.

CONCLUSIONS:

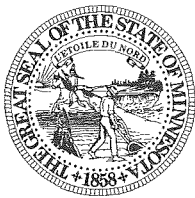
We found thirteen areas where the internal control structure needed improvement:

- Administration has not established controls over the development of information systems.
- The Intertechnologies Group does not properly administer overload contracts.
- Intertech did not properly control its professional/ technical services contracts.
- Intertech did not follow proper procedures for a mobility assignment.
- Intertech did not resolve unidentified user charges for the Computer Services Fund.
- Intertech does not ensure the accuracy of the Telecommunications Fund accounts receivable.
- Administration and the Capitol Area Architectural and Planning Board do not adequately control joint projects.
- Plant Management does not adequately monitor building maintenance and repairs.
- Plant Management should improve the method for determining space rental fees.
- The Travel Management Division did not resolve outstanding accounts receivable.
- Print Communications needs to improve controls over bookstore receipts.
- Print Communications needs to improve control over Electronic Equipment Rental equipment.
- Administration does not pay invoices promptly.

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

- Intertech did not follow proper procedures for a mobility assignment.
- Travel Management may have improperly used receipts from the Travel Service program.
- Printing Services staff did not properly bid some purchases.
- Administration does not ensure that all grantees submit audit reports as required.
- Administration does not pay invoices promptly.

Contact the Financial Audit Division for additional information.
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STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

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JAMES R. NOBLES, LEGISLATIVE AUDITOR

Representative Ann Rest, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Ms. Dana Badgerow, Commissioner
Department of Administration

Audit Scope

We have conducted a financial related audit of the Department of Administration's Operations Management bureau and Administrative Services division, as well as other programs of the Department of Administration which are material to the financial activities of the State of Minnesota. We conducted this audit as of and for the year ended June 30, 1991. 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 Operations Management Bureau and Administrative Services Division in effect at June 1991.

We conducted our audit in accordance with generally accepted government auditing standards. 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 significant internal control structure policies and procedures in the following categories:

- Operations Management Bureau activities:
 - motor pool receipts and fixed asset disbursements,
 - central stores receipts and supplies disbursements,
 - risk management receipts and claims disbursements,
 - state printer receipts, printing and supplies disbursements,
 - documents and publications receipts
 - postage clearing receipts and disbursements,
 - equipment rental receipts, supplies and fixed asset disbursements, and
 - payroll.
- Administrative Services division activities:
 - administrative grants,
 - oil overcharge grants, and
 - payroll.
- Other Administration activities:
 - computer services receipts and professional/technical services disbursements,
 - plant management receipts,
 - statewide building construction repairs and architectural/engineering services disbursements, and
 - statewide real estate lease disbursements.

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.

Conclusions

Our study and evaluation disclosed the conditions discussed in findings 1 through 10, 12, 13, and 16 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 the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data.

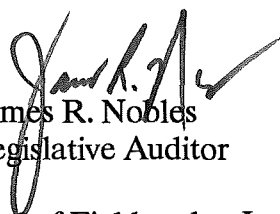
A material weakness is a reportable condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial activities being audited may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

We also noted 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 31, 1992.


The results of our tests indicate that, except for the issues discussed in findings 4, 11, 14, 15, and 16, 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 of Administration 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 May 8, 1992.

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



James R. Nobles
Legislative Auditor



John Asmussen, CPA
Deputy Legislative Auditor

End of Fieldwork: January 24, 1992
Report Signed On: April 29, 1992

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
Alan Finlayson, CPA	Auditor-in-Charge
David J. Poliseno, CPA	Auditor
Kari Irber, CPA	Auditor
Mary G. L. Jacobson, CPA	Auditor
Judy Cammack, CPA	Auditor
Dan Quandt, CPA	Auditor
Janet Knox, CPA	Auditor
Jenny Duong	Intern
Brian Stueve	Intern
Dale Ogren	Intern

Exit Conference

The findings and recommendations in this report were discussed with the following staff of the Department of Administration on March 31, 1992:

Dana Badgerow	Commissioner
Terry Bock	Assistant Commissioner, Management Analysis Division
Bernard Conlin	Assistant Commissioner, Intertechnologies Group
Dennis Spalla	Assistant Commissioner, Property Management Bureau
Steven Gammon	Assistant Commissioner, Information Policy Office
Karen Carpenter	Director, Administrative Services Bureau
Fred Grimm	Director, Management Analysis

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Introduction

The Department of Administration is responsible for providing management and general support services for state departments and agencies. Its diverse responsibilities include operations support, information management, management services, and property management. Our scope included the following two areas:

Operations Management Bureau provides basic services to state agencies. These services include travel management, printing, purchasing, and risk management.

Administrative Services Division provides internal management support services to other Administration activities. It also administers grants for public broadcasting and oil overcharge programs.

Financial activity for the Operations Management Bureau and the Administrative Services Division for the year ended June 30, 1991 is described below:

Revenues:

Motor Pool	\$ 5,774,630
Postage Clearing	9,677,399
Central Stores	4,629,777
Printing	5,933,691
Risk Management	2,360,371
Documents & Publications	2,550,312
Office Equipment Rental	755,613
Other	<u>5,669,062</u>
Total	<u>\$37,350,855</u>

Expenditures:

Postage Clearing	\$ 9,434,801
Payroll:	
Operations Management Payroll	7,545,139
Administrative Services Payroll	964,015
Motor Pool fixed assets	3,773,018
Central Stores supplies	3,638,446
State Printer printing and supplies	2,801,530
Office Equipment Rental fixed assets and supplies	504,034
Risk Management claims	452,560
Administrative grants	2,063,460
Oil Overcharge grant	350,000
Other	<u>10,527,799</u>
Total	<u>\$42,054,802</u>

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Our scope included other Department of Administration financial activities for the year ended June 30, 1991, which are material to the financial activities of the State of Minnesota. These were as follows:

Revenues:

Computer Services	\$36,276,930
Plant Management	13,970,321

Expenditures:

Computer Services professional/ technical services	2,147,919
Statewide building construction repairs and professional/technical services	19,111,063

Source: Statewide accounting Managers Financial Report, as of the fiscal year 1991 closing date.

Current Findings and Recommendations

1. PRIOR FINDING PARTIALLY RESOLVED: Administration has not established controls over the development of information systems.

The Department of Administration has not established a standard methodology for information systems development. Currently, individual state agencies have the responsibility for planning computer systems. According to Minn. Stat. Section 16B.40:

The commissioner [of Administration] shall establish, and, as necessary, update and modify a methodology for the development of approved data processing systems by state agencies. The development methodology shall be used to define the design, programming, and implementation of approved data processing systems. . .

Minn. Stat. Section 16B.41 further requires Administration's Information Policy Office to develop standards for state agencies. Without a standard methodology, information systems may not be efficient or cost effective. The Department of Administration needs to develop a methodology which helps agencies make key decisions before a new computer system is operational. Effective planning starts with clearly stated objectives based on user needs. Agencies also need to review existing systems before developing new ones. Using existing systems or software may save the state unnecessary development costs.

Security is particularly important because unauthorized access could result in data destruction or misuse. As described in Minn. Stat. Section 16B.40, the Department of Administration has the responsibility to "develop, install, and administer state data security systems consistent with state law to assure the integrity of computer based data." Currently, the state does not have any data standards. Such standards would help agencies assess the risk of unauthorized access, and the cost of reducing this risk. For systems using the state's mainframe, the security software provides adequate protection if the application interfaces with it properly. If the system uses an agency computer, the agency may need to purchase security software.

Controls must also be established to ensure the integrity of data. Such procedures include both computer and manual procedures. Computer controls include such items as programming edits, input totals, and audit trails. Manual controls include such procedures as authorizing program changes, separating key duties, and reconciling balances. By planning control procedures, agencies reduce the possibility of undetected errors when the system is operating.

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The planning phase must also include testing the system and training staff. To detect design and programming errors, test data should include all types of transactions. If errors are not corrected in the development phase, they may be costly to fix, and result in the loss of actual data. Errors will also occur if staff do not receive adequate training on a new system.

Adequate planning, testing, and training reduces the cost of system development. The Department of Administration has the responsibility for providing agencies with a methodology to plan and implement new systems. It must clearly communicate to state agencies its role and the agency's duties. The department must also ensure that the methodology is followed. Finally, a monitoring process is necessary to ensure that a system continues to meet an agency's needs.

Recommendations

- *The Department of Administration should establish a policy for developing new computer systems. It should define agency responsibilities for the various phases of systems development.*
- *The Information Policy Office should establish security standards for information systems.*
- *Each systems development project should document an assessment of security requirements and cost.*
- *The Department of Administration should develop a monitoring process to ensure that development projects meet established standards.*

2. PRIOR FINDING NOT RESOLVED: The Intertechnologies Group does not properly administer overload contracts.

The Intertechnologies Group does not have adequate control over "overload" contracts. Intertech negotiates statewide contracts for computer programming, analysis, and microcomputer services. Other state agencies use the contracts as needed. During fiscal year 1991, Intertech disbursed \$5.2 million to overload vendors. Intertech pays the vendor and bills the cost back to the state agency.

The overload contracts are not well controlled in four respects. First, agencies can hire consultants without receiving a detailed work plan. Agencies use these contracts for developing systems and fixing problems with existing programs. Minn. Stat. Section 16B.17 requires that "the agency has received, reviewed, and accepted a detailed work plan from the contractor for performance under the contract." Finding 1 discusses the importance of a work plan for systems development. Agencies may not know the specific work necessary to correct a program error. However, they could write a plan which describes the type of problem. The consultant's work should be limited to correcting that error.

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In addition, the bidding process used to award the contracts is ineffective. Neither Intertech nor the agency bid individual projects. Instead, consultants submit bids which contain a range of hourly rates for each classification of worker. Intertech awards contracts to several vendors for each type of worker. The vendor and agencies negotiate a rate within the range for any work done during the contract period. This process does not provide a meaningful comparison of consultant costs because it does not include project details or the number of hours worked.

Some agencies have used consultants continuously for several years. This practice leaves the agencies vulnerable to the consultant's demands. The consultant is often the only one who knows how a program works and can demand increases in hourly rates. The state must accept those terms or pay another consultant to learn the system.

As a result, Intertech often does not challenge contract amendments. For example, Broadway & Seymour received a contract for fiscal year 1991 which listed the cost of a functional analyst at \$55 per hour. Three month later, the contract was amended to increase the rate for this category to \$75 per hour. In April 1991, Intertech asked Broadway & Seymour to reduce the rate back to \$55 per hour. The company would not reduce the rate for two individuals. It also insisted on a contract extension for fiscal year 1992. The state agreed to those terms. In another instance, a fiscal year 1990 contract with Technalysis included a staff specialist for a maximum of \$48 per hour. Through several amendments, the contract was extended to fiscal year 1991 and the maximum rate was increased to \$85 per hour.

Intertech needs to ensure that these contracts protect the state's interests. The contract process needs to provide control over project scope and cost. Administration must clearly define the responsibilities of both Intertech and the state agencies using these contracts.

Recommendations

- *Intertechnologies needs to improve the administration of overload contracts by:*
 - *requiring detailed project work plans;*
 - *separately bidding major projects;*
 - *monitoring and controlling increases in hourly rates; and*
 - *controlling consultant contracts on a project basis.*
- *The contract process should clearly define the responsibilities of Intertech and the state agencies.*

3. Intertechnologies did not properly control its professional/technical services contracts.

Intertech did not adequately administer several professional/technical services contracts during fiscal year 1991. Problems included inadequate bidding, unclear payment terms, and

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insufficient monitoring of invoices. During the fiscal year, Intertech spent \$2.1 million on these contracts.

Intertech has not always competitively bid out services when possible. For example, Intertech awarded IBM three projects totalling \$158,619 without bidding. Intertech paid for these projects through an unrelated IBM mainframe computer equipment and software contract. In another case, Software AG of North America received a contract without bidding. Intertech staff stated that only Software AG had the programming skills required. However, we do not believe that there were no other companies who could provide the services. Minn. Stat. Section 16B.17 requires agencies to follow normal competitive bidding procedures, or certify that bidding will not provide the needed service. Minn. Stat. 16B.17 requires agencies to make reasonable efforts to advertise contracts. The usual method followed by state agencies is to advertise the project in the State Register. Intertech may have saved money by allowing other vendors to bid for these services.

In several cases, payments to vendors differed from the terms of the contracts. For example, Intertech paid IBM \$31,007 more than allowed by the contract. From August through December 1990, the vendor charged an hourly rate which exceeded the contract amount. According to Intertech staff, IBM disputes the error. Intertech needs to work with the vendor to resolve this issue.

Payments to Software AG also differed from the terms of the contract. Intertech exceeded the contract amount by \$12,000 before processing an amendment. Although the amendment eliminated the project coordinator position, the monthly compensation remained the same. Intertech continued to incur costs which exceeded the amount of the amended contract. It then processed a second amendment to cover these obligations. We question why the monthly fee remained the same when one individual was eliminated from the project. In addition, Intertech did not comply with Minn. Stat. 16A.15. The statute requires state agencies to establish encumbrances before incurring liabilities.

A contract with Spectra Associates did not clearly state the terms for payment. The contract stated that the total amount of the contract was for \$272,256 plus actual expenses to a maximum of \$27,744. The vendor submitted and received reimbursement for \$35,671 in expenses. We believe that Intertech overpaid the vendor by \$7,927. Also, Spectra charged Intertech a 5 percent fee on subcontractors invoices, totalling \$1,964 during the fiscal year. Nothing in the contract allowed for such a fee.

Some fees charged by Greatapes Corporation were not listed in the contract. For example, Greatapes charged Intertech between \$205 and \$305 for tape editing. The contract contained no rates for editing. In other cases, the rates on the invoices differed from the contract list. Often the description of the service was insufficient to determine the appropriate contract rate. We could not substantiate 53 charges totalling \$9,551, based on the documentation available.

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In all of these examples, Intertech did not adequately control the choice of vendor, the terms of the contract, nor the payments made.

Recommendations

- *Intertech should improve the administration of contracts by:*
 - *bidding individual projects,*
 - *stating payment terms clearly in the contract,*
 - *encumbering contracts and amendments before incurring obligations, and*
 - *ensuring that invoices provide sufficient detail and match the terms of the contract.*
- *Intertech should resolve the potential overpayments with IBM and Spectra Associates.*

4. Intertech did not follow proper procedures for a mobility assignment.

Intertech did not complete a mobility contract for a Metropolitan Council employee until a year after the individual started working at Intertech. The employee has since returned to his duties at the Metropolitan Council. Contracts are necessary to ensure that both sides agree to compensation and other personnel matters. In addition, the bureau has not notified the Department of Employee Relations of the agreement, as required by Minn. Stat. Section 15.53.

Recommendations

- *Intertech should prepare contracts before entering into mobility assignments.*
- *The bureau should notify the Department of Employee Relations of this, and any future, mobility agreements.*

5. Intertech did not resolve unidentified user charges for the Computer Services Fund.

During fiscal year 1991, Intertech staff did not review \$82,000 of unidentified computer usage for the Computer Services Fund. The bureau has a software package which records computer services by user number. However, due to incomplete information, the billing account for some computer usage is not readily identifiable. The staff did not investigate the unidentified usage during fiscal year 1991 to determine whether these charges were internal, or should have been billed to a state agency.

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Recommendation

- *Intertech should review and resolve all significant unidentified charges.*

6. PRIOR FINDING NOT RESOLVED: Intertech does not ensure the accuracy of the Telecommunications Fund accounts receivable.

Intertech does not reconcile its detailed accounts receivable records to the summary receivable amounts calculated by fiscal services. Telecommunications has two types of accounts receivable; one for monthly telephone service and the other for leased equipment. Intertech maintains detailed records showing the amounts owed by each agency. Fiscal services calculates summary accounts receivable balances from monthly bills and receipts deposited into the statewide accounting system. The fiscal services records are intended to provide an independent check of the accuracy of the detailed records. However, the two divisions do not compare records. At June 30, Intertech telephone service receivables were greater than the amount calculated by fiscal services by \$85,189. For financing leases receivable, fiscal services had recorded \$100,282 more than Intertech. The differences resulted from errors in both records. To ensure accurate records and bills, staff need to reconcile the accounts receivable records regularly.

Recommendation

- *Intertech and fiscal services should regularly reconcile accounts receivable records for the Telecommunications Fund.*

7. Administration and the Capitol Area Architectural and Planning Board do not adequately control joint projects.

Administration and the Capitol Area Architectural and Planning Board have not clearly defined their roles for projects completed jointly. The two agencies have spent each other's funds without assurances that the disbursements meet the intent of the appropriations and their respective missions.

The Capitol Area Board has charged planning and design costs to construction funds appropriated to Administration. As discussed in finding 7, the board has charged operating expenses to the Department of Administration funds. In some instances, the expenses were routine operating costs not related to the planning and design of a particular project. Conversely, Administration has charged construction costs to board appropriations. In one case, Administration used \$530,000 from a board appropriation for parking and landscaping improvements to partially fund the construction of a parking ramp.

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Administration and the board need to clearly define their roles on construction projects. Written agreements are necessary to document the intent and the estimated cost of work performed by other agencies. The agency receiving the appropriation must verify that the expenditures of the other agency comply with the terms of the appropriation.

Recommendation

- *The Department of Administration and the Capitol Area Architectural and Planning Board should only charge costs to each other's funds, pursuant to a written agreement.*

8. Plant Management does not adequately monitor building maintenance and repairs.

Plant Management does not sufficiently monitor maintenance and repair expenditures. First, division staff do not adequately track projects which are in progress. In addition, the division does not compare repair services to its planned replacement schedule. Plant Management builds a certain amount of repair costs into the rental rates it charges state agencies. If actual repairs exceed this amount, it must use accumulated retained earnings or increase rental rates. The division needs current information on repair projects to ensure the amount of funding is adequate. Insufficient funding can result in higher future costs.

The division does not effectively track repair projects. It receives about 500 work order repair requests each month. As of June 30, 1991, the division had numerous unresolved work orders, some dating back as far as five years. These orders included requests for testing smoke detectors, replacing a pressure valve, and repairing cracked steps. The staff believe that many of the projects were completed, but not properly recorded. Plant Management needs better monitoring of repair projects. Information on current jobs is necessary to ensure that funds are available for critical projects. It will also help staff ensure that repairs are completed timely.

Plant Management does not maintain a complete list for actual and anticipated replacements of carpet, paint, and window blinds. The division has a replacement policy, but it has not been adequately monitored. The division has started to enter actual replacements into a computer system. However, until the system is complete, Plant Management may have a difficult time budgeting funds for upcoming routine replacements.

Recommendations

- *Plant Management should develop a system to monitor the status of all repair projects.*
- *Plant Management should ensure that all work orders are completed timely.*
- *The division should better plan replacement of items included in the replacement schedule.*

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9. Plant Management should improve the method for determining space rental fees.

The Department of Administration needs an evaluation process to support its method for determining space rental fees. State agencies pay rent for occupying space in state buildings. Plant Management and Fiscal Services staff calculate the rental rate based on operating costs and square footage occupied. They then may adjust the calculation to reflect the quality of the space and market rental rates. However, Administration does not have formal criteria for determining these adjustments. In fiscal year 1991, agencies occupying space in the Administration, Health, and Historical Society buildings paid 46 to 87 cents less per square foot due to poor quality of space. Administration needs to establish a process for categorizing space to ensure that occupants of different buildings are treated equitably.

In addition, the Fiscal Services Division did not use the proper square footage when determining the operating costs of some buildings. Certain costs, such as overhead, are allocated to buildings based on total square footage. Fiscal Services did not use the official Real Estate Management Division square footage figures when calculating the fiscal year 1991 rates. As a result, the rental rates for individual buildings were calculated erroneously. For example, the rate for the Capitol should have been \$12.45 instead of \$10.46 per square foot. The rate for the Capitol Square building should have been \$8.36 instead of \$8.79 per square foot.

Recommendations

- *Plant Management should develop a formal method for evaluating the quality of space.*
- *Fiscal Services should use the official Real Estate Management Division square footage figures in its calculations.*

10. The Travel Management Division did not resolve outstanding accounts receivable.

The Travel Management Division did not adequately pursue outstanding vehicle rental accounts receivable. As of June 30, 1991, accounts receivable over 90 days totalled \$45,423. Travel Management has the authority to compel prompt payment and should not have any unpaid accounts over 90 days old. Travel Management compares agency payments to outstanding accounts receivable in an attempt to determine which agencies have not paid. However, agencies do not always properly code payments when entering them into the statewide accounting system. Therefore, some paid bills show as outstanding in the Travel Management records. The staff should determine which bills are actually outstanding and pursue collection.

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Recommendation

- *The Travel Management Division should promptly pursue outstanding accounts receivable.*

11. Travel Management may have improperly used receipts from the Travel Services program.

Travel Management did not document the cost of managing the travel services program. Travel Management receives a commission for airline reservations made through the state's preferred travel agent. These commissions totalled \$61,711 during fiscal year 1991. Minn. Stat. Section 16B.531 states:

[these receipts] must be deposited into the motor pool revolving account ..., and must be used for the expenses of managing the centralized travel services. Revenues in excess of the management costs of the centralized service must be returned to the general fund.

Travel Management has not calculated the cost of operating the travel services program. In addition, it did not return any money to the General Fund during fiscal year 1991. We believe Travel Management incurs minimal expenses in managing this service and that the General Fund should have received the majority of the commissions. The division needs to determine its costs and make any required transfers.

Recommendation

- *Travel Management should determine the cost of managing the travel services program and transfer the excess to General Fund.*

12. Print Communications needs to improve controls over bookstore receipts.

Controls over bookstore receipts need improvement in four areas. The division needs to improve separation of duties over receipts. In addition, staff must document cash adjustments, verify credit card reimbursements, and compare cash register transaction numbers. During fiscal year 1991, cash receipts at the bookstore totalled \$2.1 million.

The bookstore does not have adequate separation of duties over receipts. A clerk lists the amount of money received from mail orders. This person also totals the sales order forms to verify that customers sent the proper amounts. The clerk then gives the money to the bookstore manager for deposit. The manager compares the amount received to the summary of sales order forms. To ensure completeness of the deposit, an independent person

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needs to total the sales forms and compare to the deposit. This person should not have access to the cash.

Staff do not always document adjustments to the mail list. These adjustments usually result from improperly recorded or unsigned checks. The person who recorded the check and the person preparing the deposit need to work together to provide better documentation for changes to the amount deposited.

In addition, staff do not ensure that the credit card company reimburses the proper amount to the bookstore. Customers can use credit cards when purchasing items. The bookstore sends the sales slips to the vendor for payment. However, no one ensures that the amount received agrees with the total of the sales slips submitted.

Finally, no one compares the beginning transaction number on the bookstore's cash register to the previous day's ending number. The cash register prints consecutive numbers for each transaction. A comparison of these numbers ensures that the tape is a complete record of the daily sales.

Recommendation

- *Print Communications should improve controls over bookstore receipts by:*
 - *segregating duties over depositing and reconciling,*
 - *documenting any adjustments to the cash lists,*
 - *verifying the amounts remitted by the credit card company, and*
 - *comparing beginning and ending transactions numbers on the cash register.*

13. Print Communications needs to improve control over Electronic Equipment Rental equipment.

Print Communications does not adequately account for the equipment of the Electronic Equipment Rental section. This section owns approximately 330 typewriters and facsimile machines which it rents to other state agencies. The division has two separate sets of records; one of rented machines and the other of idle equipment stored in the warehouse. However, no one verifies that the two records together contain all assets available for rent.

In addition, the Equipment Rental manager takes the count of equipment in the warehouse. Someone other than the Equipment Rental manager needs to participate in the physical count of items in the warehouse. This provides an independent check of the assets.

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Recommendations

- *Print Communications should account for all equipment available for rent.*
- *Someone other than the Equipment Rental manager should participate in the count of equipment in the warehouse.*

14. Printing Services staff did not properly bid some purchases.

Print Services staff did not always comply with state bidding requirements. According to Minn. Stat. Section 16B.07, state agencies must obtain competitive bids for most purchases. Administration's Materials Management Division has established procedures for bidding. However, printing staff did not follow these procedures for 10 of 20 items we tested. These purchases ranged from \$714 to \$2,715. Competitive bidding is necessary to ensure that the state obtains the lowest price for the quality desired.

Recommendation

- *Printing Services should bid purchases in accordance with Minn. Stat. 16B.07 and Materials Management procedures.*

15. Administration does not ensure that all grantees submit audit reports as required.

Administration does not ensure that radio stations receiving state grants submit the audit reports required by Minn. Stat. Section 129D.14, Subd. 6. For the two year grant period ending June 30, 1991, five of 12 grantees did not submit an audit report. The department needs to ensure that stations comply with the statutory requirements.

The statute further requires that the audit include a "review of the station promotion, operation, and management, and an analysis of the station's use of the grant money". Only one of the audit reports included an examination of grant expenditures. We believe the wording in the statute does not clearly indicate the type of review required. Administration needs to develop a policy or seek a legislative change clarifying the information required in the audit report.

Recommendations

- *Administration should enforce the statutory provision requiring audits of radio stations receiving state grants.*
- *The department should clarify the statutory language regarding a review of expenditures.*

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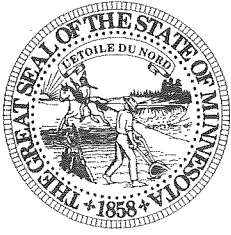
16. PRIOR FINDING NOT RESOLVED: The Department of Administration does not pay invoices promptly.

The Department of Administration does not pay invoices within 30 days as required by Minn. Stat. Section 16B.124. The statewide goal is that agencies pay 98 percent of bills within 30 days. During fiscal year 1991, the Intertechnologies bureau was consistently late in paying invoices. Its prompt payment percentage for the Computer Services Fund ranged from a low of 62 percent in September 1990 to a high of 96 percent in May 1991. In addition, Printing Services, Equipment Rental, Travel Management, and Volunteer Services divisions did not meet the statewide goal in the first five months of the fiscal year. Late payments can result in interest charges and poor relationships with vendors.

Recommendation

- *The Department of Administration should pay invoices within 30 days, as required.*

Department of Administration



April 27, 1992

200 Administration Building
50 Sherburne Avenue
Saint Paul, Minnesota 55155
(612) 296-3862

Ms. Jeanine Leifeld, Audit Manager
Office of the Legislative Auditor
First Floor, Centennial Office Building
658 Cedar Street
St. Paul, MN 55155

Dear Jeanine:

Thank you for the opportunity to review and comment on the draft management letter to Admin regarding the financial audit of our Fiscal Year 1991 financial statements. While I am concerned about the seemingly large number of findings, the assistance provided by your audit staff will be invaluable to us as we continue to improve the financial management practices of the department.

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,

Dana B. Badgerow
Commissioner

DBB:KC:li

Enclosure

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

RECOMMENDATION #1

1. PRIOR FINDING NOT RESOLVED: Administration has not established controls over the development of information systems.

Response:

- *The Department of Administration should establish a policy for developing new computer systems. It should define agency responsibilities for the various phases of systems development.*

An outline for a standard procedures guide has been developed. The guide would help agencies choose a development methodology that is appropriate to their particular organization and system requirements. IPO will work closely with the Project Team over the next year to develop the various sections of the guide.

- *The Information Policy Office should establish security standards for information systems.*

A draft security policy and implementation strategy was developed and reviewed with the commissioner of administration, the Information Policy Council, agency MIS directors, DOER, and the legislative auditor. The final policy will be available in May. Legislation to clarify the security responsibility of the commissioner of administration and the commissioners of other agencies was included in Administration's housekeeping bill which passed in the 1992 session.

- *Each systems development project should document an assessment of security requirements and cost.*

Costs for developing and implementing security requirements are included as a part of the existing life cycle methodology.

- *The Department of Administration should develop a monitoring process to ensure that development projects meet established standards.*

Systems monitoring will be addressed through: the strategic information planning activities, risk assessment included in the life cycle methodology, MIS budget review requirements and PROSE (performance review of systems expectations).

Person Responsible: Steve Gammon
Implementation Date: June 1993

RECOMMENDATION #2

- 2. PRIOR FINDING NOT RESOLVED: The InterTechnologies Group does not properly administer overload contracts.**

Response:

InterTech is continuing to work to improve the administration of the overload contracts. To that end, the administration of these contracts has been centralized and concentrated in a single unit. Any changes in rates charged during the life of a project require the prior written approval of the agency manager involved, and more detailed invoices have been required to permit closer balancing of invoices and timesheets.

Effective FY93, a new policy and new procedures will be put in place which will:

- Require better documentation of "what is being requested," as well as vendor responses to the request;
- Require all new development projects that exceed an estimate of \$10,000 be bid separately, or justified in writing why they shouldn't be;
- Require specific rates be included in the vendor response to be used as the baseline for managing rate increases;
- Require agency documentation of the decision to proceed with a project, who is responsible for project management and control, when to proceed and standards for reviewing progress and resolving problems.

It is our intent that the new procedures will clearly define the responsibilities of InterTech and state agencies. The proposed policy and procedures will be discussed with the Legislative Auditor's Office before implementation to ensure sufficient control practices are in place.

Person Responsible: Paul Stembler

Implementation Date: July 1, 1992

RECOMMENDATION #3

- 3. InterTechnologies did not properly control its professional/technical services contracts.**

Response:

Business Services is formulating training and processes to eliminate the problems described in the Legislative Auditor's comments. This program will include the following steps:

- Business Services will present a description of the contract process and requirements (including mobility assignments) to cost pool managers and others involved in preparing contracts. Their role and responsibilities in this process will be emphasized.
- Business Services will require a Contract Questionnaire to be completed by the contract originator prior to drafting each contract. This questionnaire will provide Business Services with information to include in the contract text, as well as prescribe necessary procedures to legally execute the contract.
- Business Services will prepare a standard form for each contract originator to track dollar expenditures during the contract term. Business Services will monitor expenditures each quarter by notifying the originator of the amount spent under each contract. Originators will then submit their estimated additional expenditures to the end of the contract term. These procedures will keep spending within established dollar limits and enable required amendments if higher contract expenditures are needed.
- Business Services will notify originators of upcoming expirations on contracts at least three months ahead of the expiration date. This will permit each originator to timely amend or terminate a contract.

InterTech has worked with IBM to resolve the \$31,000 overpayment issue. IBM identified \$12,000 of credits given to InterTech for overpayments. They gave InterTech documentation on how these credits were applied. InterTech is in the process of verifying this information. For the remaining \$19,000, IBM issued InterTech a credit.

InterTech has amended the Spectra contract to increase the original estimate for travel expenses. All travel expenses incurred by and paid to Spectra were fair and reasonable to accomplish the consulting agreement (amendment #4 effective December 3, 1991). This action was taken as soon as the error was identified. Improved control procedures are being defined and will be implemented with the previously defined training process.

Person Responsible: Jerry Green
Implementation Date: June 1, 1992

RECOMMENDATION #4

4. **InterTech did not follow proper procedures for a mobility assignment.**

Response:

Current senior management is aware that interagency mobility agreements should be finalized in cooperation with Admin's Personnel Services and communicated with DOER before the assignment begins. This awareness, along with our current effort to educate all other InterTech managers concerning correct contract and mobility procedures, will avoid this situation in the future.

Person Responsible: Jerry Green
Implementation Date: June 1, 1992

RECOMMENDATION #5

- 5. InterTech did not resolve unidentified user charges for the Computer Services Fund.**

Response:

As of October 1, 1991, system changes were implemented to identify charges which do not have proper billing information. Procedures are in place to take timely corrective action.

Person Responsible: Steve Harper
Implementation Date: Currently in Effect

RECOMMENDATION #6

- 6. PRIOR FINDING NOT RESOLVED: InterTech does not ensure the accuracy of the Telecommunications Fund accounts receivable.**

Response:

During FY92, InterTech modified the Telecommunications accounts receivable (TCAR) program to enable Business Services to use summarized information in reconciling its outstanding receivable balance with that of Fiscal Services.

Business Services is currently establishing ongoing procedures to accomplish monthly reconciliation and timely adjustment of the TeleComm receivables.

Person Responsible: Jerry Green
Implementation Date: June 1, 1992

RECOMMENDATION #7

- 7. Administration and the Capitol Area Architectural And Planning Board do not adequately control joint projects.**

Response:

As a result of the Legislative Auditor's report, representatives of Administration and CAAPB met to identify individual roles and expectations with respect to state building projects within the Capitol complex. Following are the results of this meeting.

- The following division of responsibilities was identified:

Administration:

Supervision of Construction Funds
Building Programming
Space Planning

CAAPB:

Comprehensive Site Planning/Master Planning Competition
Competition Funding

- The use of any building or planning funding will be contingent upon the approval of the agency to which the funds are appropriated.
- Bonded funds will not be utilized for operating activities.
- As each project begins, representatives of the two agencies will meet to develop a document which will:
 - a) include a budget breakdown;
 - b) identify who shall take the lead at each phase of the project;
 - c) identify a method for verifying expenditures associated with the project; and
 - d) identify methods of controlling and transferring costs.

Person Responsible: George Iwan
Implementation Date: Immediately

RECOMMENDATION #8

- 8. Plant Management does not adequately monitor building maintenance and repairs.**

Response:

Plant Management has improved its manual tracking of repair/work orders through the shop supervisor. The procedure established is as follows:

- Each month, supervisors evaluate work orders that are one-year old to determine if the project should be cancelled or carried forward and notations will be made on the work orders; information will be relayed to the Building Operations scheduler for updating of central files. The one-year guideline is based on experience of trades personnel and the nature of the work. All outstanding orders have been updated and/or cancelled as appropriate.
- In the Maintenance and Leasehold area, Plant Management has verified all buildings to determine their current status as far as paint, carpet, and blinds. A specific project list for FY93 has been developed that identifies the projects that need completion, while leaving flexibility for emergency projects that are not foreseeable. Maintenance and Leasehold will be utilized for planned maintenance and details provided in annual rate package.

Persons Responsible: Carl Brust and Jim Lloyd
Implementation Date: May 15, 1992

RECOMMENDATION #9

- 9. Plant Management should improve the method for determining space rental fees.**

Response:

Since Plant Management rates are established for the biennium and submitted to Finance for incorporation into agencies' biennial budget preparation, Plant Management will work jointly with Real Estate Management and include the criteria for space adjustments in the narrative.

Again, since rates are projected for the biennium and based on the leasable square footage, Plant Management will work jointly with Real Estate Management and Fiscal Services to develop biennial rates that reflect accurate building square footage; documentation of this information will also be established.

Any profits or losses that have been generated by the square footage information will be either recovered or returned according to established guidelines.

Person Responsible: Lenora Madigan
Implementation Date: October 31, 1992

RECOMMENDATION #10

- 10. The Travel Management Division did not resolve outstanding accounts receivable.**

Response:

Travel Management accounts receivable was automated in early 1990 and during 1991 errors were discovered in the program. A backup system has been designed, program changes have been made, and the systems are being verified against each other. Staff is and has been determining actual outstanding accounts receivable and is taking appropriate action.

Person Responsible: R.D. McNeil

Implementation Dates: Underway at present; To be completed by June 30, 1992

RECOMMENDATION #11

- 11. Travel Management may have improperly used receipts from the Travel Services program.**

Response:

\$40,000 has been transferred to the General Fund from a revenue share of \$53,000. In FY93, a \$45,000 transfer is anticipated. TMD staff will undertake a time study to more closely identify program-related costs and to ensure that travel program costs are not passed on to vehicle rental customers.

Person Responsible: R.D. McNeil

Implementation Dates: Time study began April 1, 1992; To be completed by June 30, 1992

RECOMMENDATION #12

- 12. Print Communications needs to improve controls over bookstore receipts.**

Response:

PrintComm has implemented this recommendation.

Person Responsible: Mary Mikes

Implementation Date: March 1, 1992

RECOMMENDATION #13

- 13. Print Communications needs to improve control over Electronic Equipment Rental equipment.**

Response:

PrintComm accounts for all equipment available for rent but does keep two sets of records. PrintComm will verify that these records contain all assets available for rent.

Person Responsible: Gene Kilmer
Implementation Date: July 1, 1992

The Business Manager of PrintComm now participates in the count of equipment in the warehouse on a "spot-check" basis.

Person Responsible: Jim Joiner
Implementation Date: As of March 15, 1992

RECOMMENDATION #14

- 14. Printing Services staff did not properly bid some purchases.**

Response:

Materials Management provided training in December 1991 and did two spot checks for compliance since then, finding that PrintComm is now in compliance with M.S. 16B.07.

Person Responsible: Jane Rosso
Implementation Date: January 15, 1992

RECOMMENDATION #15

- 15. Administration does not ensure that all grantees submit audit reports as required.**

Response:

Admin's housekeeping bill, passed in the 1992 legislative session, contains language which clarifies the audit requirements and should resolve the problems. Grantees will be notified of these changes.

Person Responsible: Chris Donaldson
Implementation Date: July 1, 1992

RECOMMENDATION #16

- 16. PRIOR FINDING NOT RESOLVED: The Department of Administration does not pay invoices promptly.**

Response:

Prompt payment of agency invoices has been a priority of the commissioner, executive team, division directors and division staff during the past year. During CY91, several procedural changes were implemented resulting in a significant improvement over our CY90 prompt payment experience. As evidence, we cite the following annual averages: CY90--88.08%; CY91--96.51%; CY92, to date--97.88%.

Prompt payment will continue to have a high priority and during CY92, the necessary changes will be implemented to reach and exceed the 98 percent goal.

- Monthly, each division director will continue to review its invoice payment process and implement procedural changes necessary to ensure 98 percent or higher of the division invoices are paid within 30 days.
- Monthly, prompt payment will continue to be an agenda item for review and discussion at the Management Team meeting.
- Quarterly, prompt payment will continue to be an agenda item for discussion during each division director's quarterly operations review with the commissioner.

Person Responsible: Karen Carpenter
Implementation Date: July 1, 1991