

**DEPARTMENT OF ADMINISTRATION
FINANCIAL AUDIT
FOR THE YEAR ENDED JUNE 30, 1992**

APRIL 1993

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

93-15

DEPARTMENT OF ADMINISTRATION

FINANCIAL AUDIT FOR THE YEAR ENDED JUNE 30, 1992

Public Release Date: April 8, 1993

No. 93-15

OBJECTIVES:

- **EVALUATE INTERNAL CONTROL STRUCTURE:** Controls over significant portions of the Facilities Management Bureau, including plant management lease receipts, plant management rental and repair disbursements, building construction architectural, engineering and construction disbursements, and facilities management payroll; controls over other Administration activities, including computer services revenues and computer services fixed assets and depreciation.
- **TEST COMPLIANCE WITH CERTAIN FINANCE-RELATED LEGAL PROVISIONS.**

CONCLUSIONS:

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

- Administration has not established adequate controls over the development of information systems.
- Individuals may have unnecessary access to certain computer files.
- Intertech security officers do not promptly suspend unused codes.
- Intertech does not have adequate control over the Panvalet production library.
- Administration and the Capitol Area Architectural and Planning Board do not adequately control joint projects.

We found one area where the department had not complied with finance-related legal provisions:

- Administration did not use litigation proceeds appropriately.

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 Phil Riveness, 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 Facilities Management Bureau, 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, 1992. 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 Administration's Facilities Management Bureau in effect in June 1992.

As part of our audit, we reviewed general controls over selected aspects of the state's central computer facility. The Department of Administration is responsible, pursuant to Minn. Stat. Section 16B.14, for integrating and operating the state's computer facility.

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 within the Facilities Management Bureau into the following categories:

- Plant Management lease receipts,
- Plant Management rental and repair disbursements,
- Building Construction architectural, engineering and construction disbursements, and
- Facilities Management payroll.

Other material components of the state's annual financial report:

- Computer Services revenues, and
- Computer Services fixed assets and depreciation.

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 2 through 6 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 2 is a material weakness.

We also noted other matter 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 February 18, 1993.

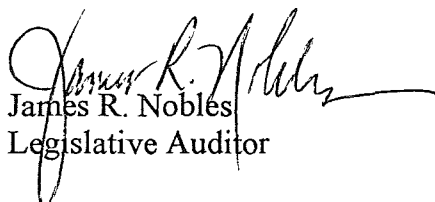
The conclusions of our review of general controls over selected aspects of the state's central computer facility affect the internal control structure of the state over all. The conclusions are included in the report of internal control for the state as a whole, which is published in the State of Minnesota's Financial and Compliance Report on Federally Assisted Programs for the year ended June 30, 1992.

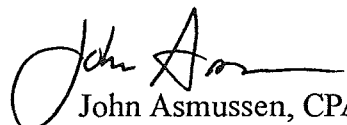
During our audit of Administration for fiscal year 1991, we had noted that Plant Management had used incorrect square footage amounts when calculating state building rental rates. Minn. Stat. Section 16B.24 specifies that Administration will charge rent on the basis of space occupied. Administration was unable to correct the rates for fiscal years 1992 and 1993. However, the department used the correct square footage amounts in the fiscal year 1994 rate package which it has submitted to the Department of Finance for approval.

The results of tests indicate that, except for issues discussed in the preceding paragraph and in finding 1, 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 April 8, 1993.

We thank 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 22, 1993

Report Signed On: April 1, 1993

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
Mary Jacobson, CPA	Auditor-in-Charge
David Poliseno, CPA	Auditor
Joan Haskin, CPA	Auditor
Beth Hammer, CPA	Auditor
Judy Hunt, CPA	Auditor
Carrie Brown	Intern

Exit Conference

The findings and recommendations in this report were discussed with the following staff of the Department of Administration on February 18, 1993:

Dana Badgerow	Commissioner
Bernie Conlin	Assistant Commissioner, Intertechnologies Bureau
Dennis Spalla	Assistant Commissioner, Facilities Management Bureau
Bob Schroeder	Assistant Commissioner, Operations Management Bureau
Terry Bock	Assistant Commissioner, Management Analysis
Steve Gammon	Assistant Commissioner, Information Policy Office
Karen Carpenter	Administrative Services Director
Fred Grimm	Management Analysis Director
Larry Freund	Fiscal Services Director

Department of Administration

Introduction

The Department of Administration is responsible for providing management and general support services for Minnesota government. Its diverse responsibilities include operations management, information management, management services, and property management. Our scope for fiscal year 1992 focused on the Facilities Management Bureau.

The Facilities Management Bureau is responsible for overseeing the real property and buildings owned, leased, or managed by the state of Minnesota. The bureau consists of 5 divisions: Real Estate Management, Energy Conservation, State Building Construction, Building Codes and Standards, and Plant Management.

Financial activity for the Facilities Management Bureau for the year ended June 30, 1992 is described below:

Facilities Management Revenues:	
Plant Management leases	\$17,036,773
Other	<u>5,034,246</u>
Total	<u>\$22,071,019</u>
Facilities Management Expenditures:	
Plant Management rents	\$ 3,874,314
Plant Management repairs, alterations, and maintenance	1,242,634
Building Construction architectural fees, engineering, and construction costs	44,827,123
Building Construction payroll	1,299,648
Plant Management payroll	6,376,634
Energy Conservation payroll	301,805
Building Fund Operations payroll	24,861
Real Estate Management payroll	226,684
Building Code payroll	1,143,062
Other	<u>13,123,093</u>
Total	<u>\$72,439,858</u>

Source: Manager's Financial Report produced by the statewide accounting system, as of the fiscal year 1992 closing date.

Current Findings and Recommendations

1. The Department of Administration did not use litigation proceeds appropriately.

The department inappropriately deposited a litigation settlement check for \$302,749 into its asbestos abatement account in the Building Fund. The department received the check on March 17, 1992, but did not deposit it until April 30, 1992. The money was subsequently used for additional asbestos projects. By retaining and using the money in its own account, the department misappropriated state funds pursuant to Minn. Stat. Section 10.31.

The Laws of Minnesota 1992 amended Minn. Stat. Section 16B.31 to allow the department to keep money received from successful litigations involving capital improvements to state buildings. The law became effective on April 30, 1992. Prior to the enactment of the law, the department had always deposited litigation proceeds into the state's General Fund. The department held the litigation settlement check for over a month until the effective date of the new law and then deposited it into its account. Since Minnesota has a prompt deposit requirement, per Minn. Stat. Section 16A.275, the department had no authority to retain the check until the new law became effective.

Recommendation

- *Administration must remedy the violation of Minn. Stat. Section 10.31 by either returning \$302,749 to the General Fund or by seeking legislative authority to retain the money.*

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

The department 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 system...

Department of Administration

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 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.

During the design of a system, controls must 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.

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 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 the methodology is followed. Finally, a monitoring process is necessary to ensure that a system continues to meet an agency's needs.

Information Policy Office staff have been working to develop methodology guidelines for agencies. They have already established security standards for information systems. We believe it is very important for them to continue their efforts in this area.

Recommendations

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

Department of Administration

3. Individuals may have unnecessary access to certain computer system files.

Some individuals may have unnecessary access to system files. Intertech uses the ACF2 security software package to specify who has access to data and the terms under which access can occur. ACF2 allows Intertech to group users together by user ID and allow access to system files based on these groups. However, we noted several individuals whose job duties do not appear to fit the group they have been assigned. For example, as of June 1992, two Intertech employees, who were not part of the technical support group, had clearance to maintain distributed processing software. Distributed processing software is especially sensitive because, as high level systems software, it affects many different user applications.

The department formed the user ID groups several years ago and has not reviewed them recently. Therefore, the department has not updated the groups when individual duties change. Without ensuring that the level of access matches an individual's job duties, employees could have unnecessary access to system files. The department is currently in the process of refocusing Intertech. A review of the user ID groups would ensure individuals only have access to files that are necessary for their job duties.

Recommendation

- *Intertech needs to review the ACF2 user IDs to ensure users belong to the correct groups and have the proper level of access.*

4. Intertech security officers do not promptly suspend unused access codes.

Intertech's security unit does not promptly suspend logon identification codes (logon IDs) that have been inactive for more than 90 days. As of June 1992 and again as of December 1992, we found several logon IDs that had not been suspended, even though they had exceeded the inactivity standard.

The ACF2 security software package, as well as agency standards, recommend that security officers suspend logon IDs after 90 days of inactivity. ACF2 can generate inactivity reports to help the security offices monitor unused logon IDs. However, the security officers have not always requested the ACF2 inactivity reports periodically. Suspending unused logon IDs reduces the risk of unauthorized access. The 90 day suspension criteria helps ensure that only authorized employees have access to the computer system.

Recommendation

- *The department should promptly suspend logon IDs that are inactive for more than 90 days.*

Department of Administration

5. Intertech does not have adequate control over the Panvalet production library.

Intertech does not have adequate controls to prevent certain programmers from making unauthorized changes directly to the Panvalet production library or to detect unauthorized changes. The production library contains programs used for actual job processing. Panvalet production programs include the state's main personnel programs, as well as statewide accounting production programs. The Panvalet production library is the largest library Intertech maintains.

Intertech has established controls for monitoring most changes to Panvalet programs. Authorized changes go through proper testing and approval before being moved to the production library. However, some Intertech programmers have the ability to modify computer programs directly in the Panvalet production library without detection. Intertech must adequately restrict access to all production libraries. It should implement procedures to adequately control any changes made directly to production libraries.

Recommendation

- *Activity in production libraries should be monitored to ensure programmers only make authorized changes.*

6. PRIOR FINDING NOT RESOLVED: Administration and the Capitol Area Architectural and Planning Board do not adequately control joint projects.

Administration and the Capitol Area Board have not clearly defined their roles for projects completed jointly. Since the two agencies occasionally have joint projects which may require charging to each others appropriations, it is necessary for them to establish procedures to ensure disbursements meet the intent of the appropriation laws and their respective missions.

We cited this issue in the Department of Administration audit report for the year ended June 30, 1991, and found the problem still exists. There has only been one project with the Capitol Area Board since we made the prior recommendation. Yet, Administration did not prepare a written agreement with the Capitol Area Board for the project. 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.*



March 26, 1993

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(612) 296-3862

Ms. Jeanine Leifeld, Audit Manager
Office of the Legislative Auditor
First Floor, Centennial Office Building
658 Cedar Street
St. Paul, Minnesota 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 1992 financial statements. While I am concerned about the 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,

A handwritten signature in cursive script, appearing to read "Dana B. Badgerow".

Dana B. Badgerow
Commissioner

DBB/mh

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

FINDINGS

1. **The Department of Administration did not use litigation proceeds appropriately.**

Response:

The amount in question represented an installment payment of the State's share of settlement proceeds in the Johns Manville class action asbestos litigation. The department sought and obtained, in its 1992 Housekeeping bill, authorization to retain that check in the asbestos abatement fund--in order to defray the cost of asbestos abatement in State buildings under its custodial control. Such legislation in fact passed, allowing the monies to be so dedicated, "(n)otwithstanding any law to the contrary. . ." The check was received while this legislative change was pending and was retained in anticipation of the statutory change.

Thus, the issue is one of the timing of the deposit rather than the substantive mis-allocation of monies. The department will seek, this legislative session, statutory authorization to retain the settlement proceeds in the asbestos account. In addition, we have re-emphasized the legal requirement of prompt deposit. A bulletin appeared in our all-employee newsletter, Admininformation, and a reminder memorandum was sent to all department managers and supervisors. Thus, it is our intent not only to rectify the legal aspects of the deposit but also to ensure that everyone in the department is fully aware of the requirement for prompt deposit in order to prevent well-intended, but unquestionable violations such as this in the future.

Person Responsible: Terry Bock/Karen Carpenter
Implementation Date: May 17, 1993

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

Response:

The Information Policy Office (IPO) has met with the Legislative Auditor's staff over the past year apprising them of our progress. The same staff also attended a formal presentation in June, 1992, where IPO presented an overview of the intended direction for the development of a systems development methodology (SDM).

IPO has also made presentations to the Systems Development Methodology Team, comprised of members from various State agencies involved in systems development, for their approval of our process.

Currently IPO is requesting information from various system methodology vendors to compare their methodology with the preliminary methodology outline developed for the purpose of validating the IPO process. The responses from the vendors are due the second week of April. This information will be utilized to improve the methodology and to determine which commercial products are comparable to the methodology and capable of addressing the IPO system development life cycle.

IPO is currently in the process of developing a draft of the SDM policy that will be presented, along with the SDM guidelines, to the Information Policy Council (IPC) at their May meeting. Once approval has been received from both the IPC and the SDM team the guidelines and policy will be distributed to all State agencies.

Person Responsible: Stephen Gammon
Implementation Date: June 30, 1993

3. Individuals may have unnecessary access to certain computer system files.

Response:

InterTech is responding to this finding in three ways, based on how fast each portion of the response can be implemented.

- Some individual cases have already been and are currently being addressed. In instances where InterTech is aware of significant changes that have occurred in the assignments of certain individuals, those individual logon ID's are being reviewed for correctness. Time frame: Already completed through April, 1993.
- With the completion of InterTech's refocusing, the Security Services Unit will initiate a review of all InterTech staff logon ID's. The review will provide detail of the logon ID privileges to appropriate managers for review and approval of the access levels possessed by individuals. Time frame: April, 1993 through June, 1993.
- The Security Services Unit will work with individual technical units to review the accuracy of access control groups. The process will allow each technical unit, which has primary responsibility for the access provided by a group, to review and approve the access control privileges provided to each access control group, as well as the individuals who are members of the group. Time frame: April, 1993 through September, 1993.

Person Responsible: Tom Wendorf
Implementation Date: September, 1993

4. **InterTech security officers do not promptly suspend unused access codes.**

Response:

During the period from June, 1992, to December, 1992, a batch job was run on an ad hoc basis to suspend logon ID's which had been inactive for 90 days. This time period was utilized to verify certain system logon ID's which needed to be excluded from the suspend program. System applications, like CICS, attach one or more logon ID's at initialization of the region, which does not increment the access count. If these logon ID's were not identified and excluded prior to running the suspend program, CICS could not operate properly.

As of January 3, 1993, a weekly batch job was implemented using UCC7 to suspend logon ID's which have been inactive for 90 days.

Person Responsible: Tom Wendorf
Implementation Date: January, 1993

5. **InterTech does not have adequate control over the Panvalet production library.**

Response:

InterTech will immediately implement ACF2 logging of access to the Panvalet library. This will provide a log of the member accessed, the logon ID of the person accessing the member, the date of the access, and the time of the access. ACF2 security logs are archived to microfiche for reference purposes. Together with the production change control process, this logging will provide ability to know who accesses each member and whether there was a corresponding production changes approved. Time frame: April, 1993.

ACF2 logging provides excellent information on who accessed each member; it does not, however, identify what change was made to the member. To increase the monitoring capabilities, InterTech has installed a production transfer product from Computer Associates. This product is called PANAPT and will provide greater information on what change was made. With knowledge of the change made, accesses which should be reviewed can more readily be identified.

Time frame: InterTech is working with the Department of Human Services MMIS application system staff to pilot use of this product. The pilot with MMIS must be completed prior to MMIS going into production in January, 1994. Implementing PANAPT throughout all applications and libraries could start upon successful completion of the pilot. The conversion will require

training of agency staff in the use of PANAPT and the revised production transfer services. If the pilot completes successfully and staff are available, full implementation of PANAPT can be accomplished by June, 1994.

Person Responsible: Tom Wendorf
Implementation Date: June, 1994

6. **PRIOR FINDING NOT RESOLVED:** Administration and the Capitol Area Architectural Planning Board do not adequately control joint projects.

Response:

With respect to projects administered jointly by Administration and CAAPB, Administration is currently developing an agreement which would define the relationship between the two agencies. Once Administration has completed this document, it will be reviewed with CAAPB. Additions to the document may/will be required for particular projects in order to identify and react to the peculiarities of the project.

Person Responsible: George Iwan
Implementation Date: May 1, 1993