

DEPARTMENT OF ADMINISTRATION

PROGRAMS SELECTED FOR FISCAL YEAR

1993 STATEWIDE AUDIT

APRIL 1994

Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

94-12

DEPARTMENT OF ADMINISTRATION
PROGRAMS SELECTED FOR
FISCAL YEAR 1993 STATEWIDE AUDIT

Public Release Date: April 7, 1994

No. 94-12

OBJECTIVES:

- **EVALUATE INTERNAL CONTROL STRUCTURE:** Building Construction consultant expenditures, Computer Services Fund revenues, Telecommunications Fund revenues, Computer Fund fixed assets and depreciation, Plant Management Fund lease revenues, and department lease expenditures.
- **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 system files.
- Intertech's accounts receivable processes need to be improved.
- The telecommunications division does not have complete contracts with some phone companies.
- Administration needs to improve controls over Intertech travel reimbursements.

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

- At the end of fiscal year 1993, Administration inappropriately charged some revolving fund costs against General Fund appropriation accounts.

Contact the Financial Audit Division for additional information.
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. Debra Anderson, Commissioner
Department of Administration

Audit Scope

We have audited selected programs of the Department of Administration as part of our Statewide Audit of the State of Minnesota's fiscal year 1993 financial statements. 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 outlined below and as further discussed in the Introduction.

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 selected financial activities of the department are free of material misstatements. In performing our audit of the selected programs, we considered the internal control structure in order to plan our audit, and we performed tests of the department's compliance with certain material provisions of laws, regulations, contracts and grants. However, our objective was not to provide an opinion on the internal control structure or on overall compliance with finance-related legal provisions.

We emphasize that this has not been a complete financial and compliance audit of all programs within the Department of Administration. The work conducted in the department is part of our Statewide Audit.

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

- Building Construction consultant expenditures,
- Computer Services Fund revenues,
- Telecommunications Fund revenues,
- Computer Services Fund fixed assets and depreciation,
- Plant Management Fund lease revenues,
- department lease expenditures.

The Department of Administration is also responsible, pursuant to Minn. Stat. Section 16B.14, for integrating and operating the state's computer facility. As part of our audit, we reviewed computer facility general controls including access, systems development, operating system, data base management, and library controls.

For the internal control structure categories listed above, including the computer facility general controls, 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.

Management Responsibilities

Management of the Department of Administration is responsible for establishing and maintaining the 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.

Conclusions

Our audit disclosed the conditions discussed in findings 1, 2, 4, 5, and 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. Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions

Senator Phil Riveness, Chair
Members of the Legislative Audit Commission
Ms. Debra Anderson, Commissioner
Page 3

and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. We believe the reportable condition described in finding 1 is a material weakness.

The conclusions of our review of general controls over selected aspects of the state's central computer facility, including findings 1 and 2, affect the internal control structure of the state overall. 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 of Federally Assisted Programs for the year ended June 30, 1993.

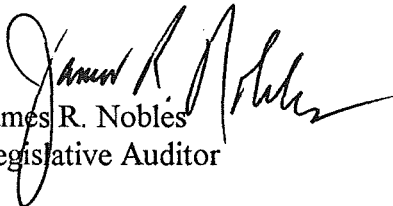
We also noted other matters involving the internal control structure and its operation that we reported to the management of the Department of Administration at the exit conference held on March 9, 1994.

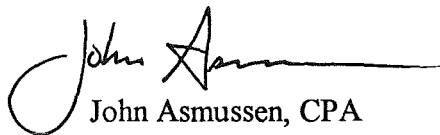
During our audit of the Department of Administration for fiscal year 1991, we had noted that Plant Management used incorrect square footage amounts when calculating rental rates. Minn. Stat. Section 16B.24 specifies that the department will charge rent on the basis of space occupied. Administration was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

The results of our tests of compliance indicate that, except for issues discussed in the preceding paragraph, and except for the issue discussed in finding 3, 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 7, 1994.

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: December 7, 1993

Report Signed On: March 29, 1994

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Department of Administration

Table of Contents

Introduction	Page 1
Current Findings and Recommendations	2
Agency Response	7

Audit Participation

The following members of the Office of the Legislative Auditor prepared this report:

John Asmussen, CPA	Deputy Legislative Auditor
Jeanine Leifeld, CPA	Audit Manager
Mary G. L. Jacobson, CPA	Auditor-in-Charge
Chris Buse, CPA	Auditor
Sonya Hill, CPA	Auditor
Carl Otto, CPA	Auditor
David Poliseno, CPA	Auditor
Dan Quandt, CPA	Auditor
Rhonda Regnier, CPA	Auditor
Tanya Morgan	Intern

Exit Conference

The findings and recommendations in this report were discussed with the following staff of the Department of Administration on March 9, 1994:

Debra Anderson	Commissioner
Terry Bock	Assistant Commissioner, Management Analysis Division
Bernard Conlin	Assistant Commissioner, Intertechnologies Group
Dennis Spalla	Assistant Commissioner, Property Management Bureau
Beverly Schuft	Assistant Commissioner, Information Policy Office
Bob Schroeder	Assistant Commissioner, Operations Management Bureau
Karen Carpenter	Director, Administrative Services Bureau
Larry Freund	Director, Fiscal Services
Marcia Hanson	Executive Assistant

Department of Administration

Introduction

The Department of Administration is responsible for providing management and general support services for Minnesota government. Its diverse responsibilities include the Operations Management Bureau, the Intertechnologies Bureau, the Information Policy Office, Management Analysis, and the Property Management Bureau. During fiscal year 1993, the department collected about \$140 million of revenue and expended \$198 million.

Our scope was limited only to those aspects of the Department of Administration financial activities which are material to the financial activities of the State of Minnesota for the year ended June 30, 1993. These were as follows:

Revenues:

• Computer Services revenue	\$33,240,745
• Telecommunications revenue	10,116,084
• Plant Management lease revenue	22,053,843

Expenditures:

• Building Construction consultant expenditures	\$6,172,973
• Computer Services fixed assets and depreciation	9,865,445
• Department lease expenditures	5,930,659

Source: Estimated/Actual Receipts Report and Manager's Financial Report produced by the statewide accounting system, as of the fiscal year 1993 closing date.

Current Findings and Recommendations

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

The department has not completed its work on establishing a standard methodology for information systems development. 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 for 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 state needs 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 controls include both computer and manual procedures. Computer procedures include programming edits, input totals, and audit trails. Manual procedures include authorizing program changes, separating key duties, and reconciling balances. By designing proper control procedures, agencies reduce the possibility of undetected errors when the system is operating.

The Information Policy Office has been working to develop methodology guidelines for agencies. In September 1993, it issued a draft *Policy on Information Resource Development*. It also issued a more lengthy document titled *Minnesota Information Resource Development Standard* in draft form for review and comment. The standard defines several management practices that must be employed in information resource development projects. As of December 1993, the Information Policy Office was reviewing responses to these draft documents. We believe that this is a very important project and that the Information Policy Office should continue its efforts to finalize the policy and standard.

Recommendations

- *Administration should finalize its systems development policy.*
- *Administration should develop a monitoring process to ensure that development projects meet established standards.*

Department of Administration

2. PRIOR FINDING PARTIALLY RESOLVED: Individuals may have unnecessary access to certain computer system files.

Some Intertech employees 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 allows access to system files based on these groups. In our 1992 audit report, we noted several individuals whose job duties did not appear to fit their assigned group. Intertech has completed the regrouping for two divisions but has not yet completed the regrouping for the telecommunications division nor the computer support services division. As a result, these employees still may have access to the system that is not compatible with their job responsibilities.

Without ensuring that the level of access matches an individual's job duties, employees could have unnecessary access to system files.

Recommendation

- *Intertech should complete its efforts to assign ACF2 user IDs to ensure users belong to the correct groups and have the proper level of access.*

3. At the end of fiscal year 1993, Administration inappropriately charged some revolving fund costs against General Fund appropriation accounts.

On July 1, 1993, Administration transferred \$23,677 of unspent fiscal year 1993 General Fund money to the Print Communications Funds. The department argued that it needed to preserve these monies because the revolving funds were expected to finance additional costs beginning in fiscal year 1994. It cited a need to pay a portion of some assistant commissioners' salaries from the revolving funds starting in fiscal year 1994. The department had paid those salaries from the General Fund appropriations in fiscal year 1993. In effect the department was paying the salaries for both 1993 and a portion of 1994 out of the fiscal year 1993 General Fund appropriation accounts. It is inappropriate to pay salaries for future years from current year accounts. We believe the department's action violates Minn. Stat. Section 16A.28, Subd. 1, which requires the department to return unspent General Fund appropriations to the state General Fund.

Recommendation

- *Administration should reimburse the General Fund for the \$23,677 in questionable expense reimbursements that it made to the revolving funds in fiscal year 1993.*

Department of Administration

4. PRIOR FINDING NOT RESOLVED: Intertech's accounts receivable processes need to be improved.

Intertech needs to improve its procedures for both the telecommunications and computer services accounts receivable.

First, the telecommunications division has unreliable data in its accounts receivable system. The division is currently unable to determine an accurate accounts receivable balance. The fiscal services division routinely calculates a telecommunications accounts receivable for the financial statements, rather than relying on the accounts receivable subsidiary records. The amount of accounts receivable reported on the financial statements at June 30, 1993, was \$1,083,000. The telecommunications division was unable to provide us with any accounts receivable detail for that same date. The division has purchased and installed a computer software program to manage telecommunications accounts receivable. However, as of November 1993, the system was still not fully operational.

In addition, we found that Intertech has not reviewed and pursued collection of computer services past due accounts since January 1993. To ensure that computer services collects all revenues, it is important that Intertech promptly monitor and pursue past due accounts.

Recommendations

- *Intertech should establish procedures to routinely reconcile telecommunications subsidiary records to totals used for financial statement purposes.*
- *Intertech should continually monitor outstanding accounts receivable and pursue timely collections of past due accounts.*

5. The telecommunications division does not have complete contracts with some phone companies.

Telecommunication's contracts with certain phone vendors do not address certain reimbursement rates. During fiscal year 1993, the division collected approximately \$1.7 million in commission revenue directly from phone companies. Telecommunications does not have written agreements with the phone companies for approximately 44 percent of this revenue. Instead, the division has verbally coordinated the billing arrangements with the phone companies.

There are two specific cases where long distance carriers bill users directly, then return a part of the proceeds to the telecommunications division. Telecommunications has not formally negotiated these arrangements into the phone company contracts. One source of receipts results from users calling long-distance without accessing the state network. The division deposited \$308,535

Department of Administration

for this activity during fiscal year 1993. Another source of receipts is from billing services performed by MCI/Telecom USA for "800" services. In fiscal year 1993, the division deposited \$443,243 for this activity.

Telecommunications should include all billing arrangements in its phone contracts to avoid any confusion over the responsibilities of all parties involved.

Recommendation

- *Telecommunications should improve the administration of its reimbursement contracts by stating payment terms clearly in the contract. Future contracts should identify include rates, usage definition, terms and other compensation criteria.*

6. Administration needs to improve controls over Intertech travel reimbursements.

Administration had not accurately reviewed the expense claims of certain Intertech employees when they have traveled out-of-state. In addition, Administration has not developed the necessary procedures to verify that its employees are complying with the state's frequent flier policy.

Intertech has not properly monitored the expense claims of employees traveling to the state's disaster recovery site in New Jersey. Eight to ten Intertech employees travel to the site four times per year. The disaster recovery coordinator has not reviewed the expense claims of those employees traveling on this project. Rather, employees have submitted the claims to their regular supervisors. The regular supervisors would not be as familiar with specific disaster recovery travel arrangements, such as meals provided at the site. As a result, we found at least four instances where Administration overpaid Intertech employees for meals claimed during these visits.

In addition, Administration does not have sufficient procedures in place to monitor frequent flyer miles employees earn on these and other trips. Such procedures are required by Finance policy 06:05:15. In one out-of-state trip we reviewed, we saw evidence that an employee had received a frequent flyer benefit credited to a personal account. The department has not monitored this usage. Per 1992 Laws, Chapter 592, Section 20:

Whenever public funds are used to pay for airline travel by an elected official or public employee, any credits or other benefits issued by any airline must accrue to the benefit of the public body providing the funding.

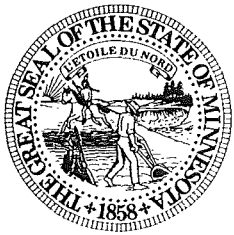
We were unable to determine to what extent, if any, Administration employees have claimed frequent flyer mileage for personal use.

Department of Administration

Recommendations

- *Administration should review all fiscal year 1993 out-of-state trips for propriety of reimbursements. Administration should request repayment from any employees who have been improperly reimbursed.*
- *Administration should develop internal procedures to implement the state frequent flyer policy. The department should determine to what extent, if any, Administration employees have made personal use of benefits of airline travel for state business and require reimbursements, if necessary.*

Department of
Administration



Our mission:
To improve the quality
and productivity
of Minnesota
government.

March 14, 1994

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 Administration regarding the financial audit of Fiscal Year 1993. The Executive Team appreciated the time spent in a candid discussion of the issues at the exit conference. Administration has made progress toward improved financial management of the department and will continue to do so. The assistance provided by your audit staff has been very beneficial.

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 "Debra R. Anderson".

Debra Rae Anderson ^{by}
Commissioner _{RLC}

dra/da
Enclosure

FINDINGS

1. **PRIOR FINDING PARTIALLYRESOLVED: Administration has not established adequate controls over the development of information systems.**

Response:

The IPO worked with the Information Policy Council and state agencies to create a draft systems development process which was distributed in 1993 for input. As a result of the input, IPO is now in the process of reformatting the document to make it more understandable. The policies, standards and guidelines, and clarification of compliance requirements will be available in final form by July 1, 1994.

In the interim, IPO is working with state agencies undertaking major systems projects to monitor their conformance with the policies, standards and guidelines in the draft document.

Person Responsible: Sarah Kline-Stensvold

Implementation Date: July 1, 1994

2. **PRIOR FINDING PARTIALLYRESOLVED: Individuals may have unnecessary access to certain computer system files.**

Response:

A review of the InterTech staff groupings and the associated access privilege changes was completed in January 1994. Although a major driver of the recently completed review was the reorganization completed in FY93, review of staff groupings and access privileges is a recurring responsibility which will be performed on a regularly scheduled basis.

Person Responsible: Ray Kermode

Implementation Date: January 1, 1994

3. **At the end of fiscal year 1993, Administration inappropriately charged some revolving fund costs against General Fund appropriation accounts.**

Response:

Administration has returned the \$23,677 to the general fund. We wish to assert, however, that the department's intent was to reimburse what we felt were legitimate general fund expenditures to enable the department to move to a more appropriate cost allocation.

Person Responsible: Larry Dowdle

Completed: March 21, 1994

4. **PRIOR FINDING NOT RESOLVED: InterTech's accounts receivable processes need to be improved.**

Response:

- **Telecommunications division does not have accurate accounts receivable records.**

Inter Tech has implemented a new accounts receivable software package for Telecommunications. A monthly reconciliation process has been developed and the accounts receivable system is reconciled for each month beginning with September 1993. The beginning balance brought forward has been reconciled to the source data. In addition, the process of reconciling balances to the financial report entries prepared by Fiscal Services has begun.

Person Responsible: Shari Huck
Implementation Date: June 30, 1994

- **InterTech has not performed any collection procedures for Computer Services since January 1993.**

As of Jan. 31, 1994, past due amounts were 0.8% of annual revenue. In FY93, collection efforts were discontinued due to the low level of past due receivables (excluding MAXIS). Ongoing efforts to address the MAXIS past due balance continued. InterTech has resumed and will continue collection efforts on the 0.8% of annual revenue past due. A formal InterTech policy on collection efforts and practices will be developed prior to June 30, 1994.

Person Responsible: Denise Shaw
Implementation Date: June 30, 1994

5. **The telecommunications division does not have complete contracts with some phone companies.**

Response:

InterTech has requested and received written documentation of existing arrangements from vendors. Future contracts will be properly documented including specifying rate, usage definition, terms and other compensation criteria. All contracts will be reviewed by Telecommunication Financial Services for compliance. The incidence of this type of contract will decline with conversion of billing from vendors to the telecommunications billing system being implemented at this time. As InterTech bills customers directly, the need for compensation arrangements with phone companies will decrease.

Person Responsible: Bill Halter
Implementation Date: February 1, 1994

6. Administration needs to improve controls over Intertech travel reimbursements.

Response:

InterTech has improved controls in this area by having the most appropriate manager review all travel reimbursement requests and by advising employees traveling for InterTech business to use a frequent flyer account separate from their personal account. The most appropriate manager is the manager who has knowledge of the purpose and activities which took place on a trip. Complete and consistent records of all travel expenditures/reimbursements are being maintained by the InterTech Accounting Services unit. Overpayments in the amount of \$87.00 were returned to the state by the employees involved.

Person Responsible: Tom Wendorf
Implementation Date: January 1, 1994

The Fiscal Services Division is currently in the process of reviewing all fiscal year 1993 out-of-state trips for propriety of reimbursements.

The Fiscal Services Division is in the process of developing a policy and procedure to implement the state frequent flyer policy.

Person Responsible: Larry Freund
Implementation Date: May 1, 1994