

Department of Administration
Programs Selected For
Fiscal Year 1994 Statewide Audit

March 1995

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Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

95-09

SUMMARY

State of Minnesota

Office of the Legislative Auditor

Centennial Office Building • St. Paul, MN 55155

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Department of Administration

Programs Selected For Fiscal Year 1994 Statewide Audit

Public Release Date: March 24, 1995

No. 95-09

Objectives:

- Assess Internal Control Structure: Intertechnologies Fund fee revenue, Intertechnologies Fund fixed assets and depreciation, Plant Management Fund lease revenue, Risk Management Fund insurance premium revenue, Central Motor Pool Fund rental revenue, Central Motor Pool Fund fixed assets and depreciation, Central Stores Fund sales revenue, Printing Services Fund fee revenue, and Building Construction Division expenditures (selected).
- Test compliance with certain finance-related legal provisions.

Conclusions:

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

- Administration has not established some of the necessary procedures for state disaster recovery.
- Intertech has not adequately tracked computers being used by employees at home.
- Administration and the Capitol Area Architectural and Planning Board do not adequately control joint projects.
- Motor Pool's accounts receivable process needs to be improved.

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

- State agencies have used bond proceeds appropriated to the Department of Administration for noncapital expenditures.

Contact the Financial Audit Division for additional information.

296-1235



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

CENTENNIAL BUILDING, ST. PAUL, MN 55155 • 612/296-4708

JAMES R. NOBLES, LEGISLATIVE AUDITOR

Senator Phil Riveness, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Ms. Elaine Hansen, Commissioner
Department of Administration

Audit Scope

We have completed a financial audit of selected programs of the Department of Administration for the year ended June 30, 1994, as part of our Statewide Audit of the State of Minnesota's fiscal year 1994 financial statements. We emphasize that this has not been a complete audit of all programs within the Department of Administration, and that our audit was limited to only that portion of the financial operations 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 consider the internal control structure in order to plan our audit of the selected programs, and that we perform 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.

Internal Control Structure

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

- Intertechnologies Fund fee revenue (including computer services and telecommunications fees)
- Intertechnologies Fund fixed assets and depreciation
- Plant Management Fund lease revenue
- Risk Management Fund insurance premium revenue
- Central Motor Pool Fund rental revenue
- Central Motor Pool Fund fixed assets and depreciation
- Central Stores Fund sales revenue
- Printing Services Fund fee revenue
- Building Construction Division expenditures (selected)

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 selected computer facility general controls, including logical security, disaster recovery and critical file backup.

For 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.

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 internal control 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, and 5, 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.

Senator Phil Riveness, Chair
Members of the Legislative Audit Commission
Ms. Elaine Hansen, Commissioner
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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 and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. We believe that none of the reportable conditions cited above are material weaknesses.


The conclusions of our review of selected general controls of the state's central computer facility, including finding 1, 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, 1994.

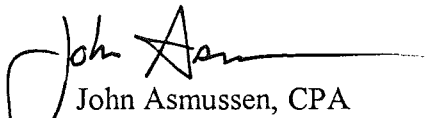
We also noted other matters involving the internal control structure and its operations that we reported to the management of the Department of Administration at the exit conference held on March 8, 1995.

The results of our tests of compliance indicate that, 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 March 24, 1995.

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: October 21, 1994

Report Signed On: March 20, 1995

Department of Administration

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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 Jacobson, CPA, CISA	Auditor-in-Charge
Geniene Herrlich	Senior Auditor
Sonya Hill, CPA	Senior Auditor
Susan Rumpca, CPA	Senior Auditor
Gail Thurmer, CISA	Senior Auditor
Trent Usitalo	Intern

Exit Conference

We discussed the findings and recommendations in this report with the following staff of the Department of Administration on March 8, 1995:

Elaine Hansen	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
Fred Grimm	Director, Management Analysis Division
Larry Freund	Director, Fiscal Services
Scott Simmons	Legislative Liaison
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, the Management Analysis Division, and the Property Management Bureau. The department is funded by a combination of appropriations and receipts. During fiscal year 1994, the department expended about \$199 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, 1994. These are shown in Table 1-1.

Table 1-1
Financial Activities
Year Ended June 30, 1994

Revenues:

Intertechnologies Fund fee revenue	\$48,800,930
Plant Management Fund lease revenue	23,647,794
Risk Management Fund insurance premium revenue	2,925,573
Central Motor Pool Fund rental revenue	5,386,599
Central Stores Fund sales revenue	5,695,990
Printing Services Fund fee revenue	5,495,488

Expense/Expenditures:

Intertechnologies Fund fixed asset purchases	11,732,440
Central Motor Pool Fund fixed asset purchases	5,132,103
Building Construction Division expenditures (selected)	42,984,763

Source: State of Minnesota Comprehensive Annual Financial Report for the year ended June 30, 1994, except for Building Construction expenditures, which were based on auditor analysis of certain project accounts for the period from July 1, 1993 through June 30, 1994.

Current Findings and Recommendations

1. Administration has not established some of the necessary procedures for state disaster recovery.

We noted three weaknesses in Administration's current disaster recovery procedures. The department has not prioritized the state's critical applications and information files and has not ensured that these critical files are properly backed up and stored. It also has not required the use of certain state recovery software for critical files.

First, Administration has not determined which of the state's applications and information files are the most critical. The state needs to decide which information systems and services would be most needed in case of a disaster. Administration should make plans to recover those applications first. Most of Administration's disaster recovery testing to date has consisted of Department of Human Services applications. Administration needs to work with state management and individual state agencies to prioritize state files and programs and determine the most critical to be recovered. Administration could then use this priority list to schedule future disaster recovery tests.

Second, the disaster recovery team currently has no authority over routine information data file backup. Most agencies make back up copies of their files. However, the timing and extent of these back up copies vary by agency. In addition, some agencies allow their copies to be stored at a building within the capital complex. Therefore, if a natural disaster destroys the main computer facility, there is a good chance that the back up storage site would also be destroyed. In order to ensure that critical data files are available in case of a disaster, Administration must coordinate agency efforts to back up critical files timely, and to use an off site storage location a sufficient distance from the main computer facility.

Finally, state agencies do not always use Intertechnologies' major automated tracking and recovery software (SUNRISE). Agencies have the ability to use one of several backup software packages. Intertech currently does not require agencies to identify their backed up files using SUNRISE. Therefore, although SUNRISE can restore various file formats, it cannot restore the files which it has not identified and tracked. Administration should work with agencies to make sure that the SUNRISE program identifies and tracks all critical files needed for disaster recovery.

Recommendation

- *Administration should improve state disaster recovery capabilities by working with agencies to:*
 - *identify state critical applications and files for recovery in the event of a disaster,*
 - *reevaluate the storage location for critical files, and*
 - *coordinate timely back up of critical data files, tracked by the SUNRISE recovery package.*

Department of Administration

2. Intertech has not adequately tracked computers being used by employees at home.

Intertech allows certain employees to keep state computers at their homes. These employees use the computers for work related activities they perform at home. However, Intertech does not currently have a policy relating to these computers. Since computers are sensitive state property, Intertech needs to take specific steps to safeguard these assets. It should have specific guidelines relating to use of the computers, eligibility for obtaining a computer for home, and personal use of state-owned computers. Intertech should periodically follow-up on the status of these employees to verify that their need for a computer at home still exists.

Recommendation

- *Intertech should develop guidelines for use of state computers at home. Intertech should also periodically review the status of employees who have computers in their homes to verify that their need for a computer at home still exists.*

3. State agencies have used bond proceeds appropriated to the Department of Administration for noncapital expenditures.

Several state agencies have purchased noncapital equipment from bond proceeds appropriated to the Department of Administration. We reviewed approximately \$42 million in building project expenditures for fiscal year 1994. During the year, agencies used over \$37,000 to purchase items such as handcuffs, mace, flashlights, dishes, coffee makers, blankets, and pillows. They have used an additional amount of at least \$279,000 to purchase office machines, computer equipment, and computer parts. Building construction division staff approved the payment of these invoices from bond proceeds, as submitted by the agency that manages the construction project.

Article 11 of the Minnesota Constitution provides that state bonds may only be issued to acquire and better public land and buildings and other public improvements of a capital nature. State bond counsel has ruled that the "purchase or repair of minor moveable equipment or other equipment having an actual useful life of less than ten (10) years" is not an eligible capital expenditure. Equipment purchases such as those made by various state agencies from bond proceeds do not appear to meet the definition of capital expenditures. In practice, agencies have used bond proceeds in order to equip a building for original occupancy. However, the bond counsel attorneys have not provided an exception to the general rule to support this practice.

Recommendation

- *The Department of Administration should seek legal guidance from bond counsel concerning the use of bond proceeds to purchase equipment. If necessary, Administration should work with the affected state agencies to repay the bond accounts for any unallowable expenditures.*

Department of Administration

4. PRIOR FINDING NOT RESOLVED: 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 occasionally have joint projects which may require charging expenditures to each other's appropriations. Therefore, it is necessary for them to establish procedures to ensure expenditures 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 that the problem still exists. Although the agencies developed two new joint projects beginning in fiscal year 1995, they did not negotiate written agreements. 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

- *Administration and the Capitol Area Architectural and Planning Board should prepare written agreements to establish procedures for joint projects. Once an agreement is finalized, the two agencies should charge costs to each other's funds pursuant to the written agreement.*

5. Motor Pool's accounts receivable process needs to be improved.

Motor Pool has not adequately resolved old, outstanding accounts receivable. As of June 30, 1994, the division's accounts receivable over 90 days old totaled about \$137,000. This is a 77 percent increase over the previous receivable balance over 90 days old, which was \$45,423 as of June 30, 1993. Motor Pool staff have not pursued old, outstanding accounts receivable. To ensure that the division collects all revenues it is due, it is important that Motor Pool promptly monitor and pursue past due accounts.

Recommendation

- *Motor Pool should continually monitor outstanding accounts receivable and pursue timely collections of past due accounts.*

Department of
Administration



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

DATE: March 16, 1995

TO: Mr. James Nobles
Legislative Auditor

Mr. John Asmussen
Deputy Legislative Auditor

Senator Phil Riveness
Legislative Audit Commission

Members
Legislative Audit Commission

FROM: Elaine S. Hansen
Commissioner

A handwritten signature in dark ink, appearing to read "Elaine Hansen", written over the printed name and title.

VOICE: 296-1424
TTY: 297-4357
FAX: 297-7909

SUBJECT: **Legislative Audit Response**

First, let me take this opportunity to compliment the members of the Legislative Auditor's Office on the cooperation and professionalism that was afforded this department during the course of their audit. The Department of Administration is a central service department that provides operational assistance to other state agencies, quasi-governmental units, local governments, the Legislature, and the judiciary. As such, the department findings are not necessarily specifically related to only this department; and we will share concerns with others, as we find appropriate.

Current Findings and Recommendations

Finding #1: Administration has not established some of the necessary procedures for state disaster recovery.

InterTech's initial efforts in disaster recovery have focused on developing recovery capability for major portions of its application workload. Now that a significant capability is in place, we are working with agencies to determine which applications must be recovered most quickly. Prioritization will be challenging because priorities are likely to change depending on the extent and timing of a disaster.

InterTech will work with the Information Policy Office and customer agencies to develop a prioritized list of applications. An initial list will be compiled by June 30, 1995. In addition, a plan for periodically reviewing and updating the list will be implemented in FY96.

Prior to utilizing the current off-site storage location in the Administration Building, back-up tapes were shipped to a commercial vendor for storage. There were significant risks with this arrangement, including the temporary storage of back-up tapes at InterTech until shipment and the risk of accident and/or environmental damage during shipment. Establishing an off-site storage location in the Administration Building resolved these risks.

Technology has changed significantly since we established the current off-site storage location. Other alternatives may now be available to transfer off-site data further from the data center. InterTech has contracted with Comdisco, a nationally recognized disaster recovery provider, to assess the risk associated with the current off-site location. Comdisco's report will be completed by May 31, 1995. InterTech will use the recommendations of this report to ensure that risks are appropriately reduced.

Since the audit field work was completed last fall, InterTech has worked to implement SUNRISE tracking of file back-ups without requiring specific action/modifications by customer agencies. Agencies' test of this capability was done on March 13, 1995; another test is scheduled for June 5, 1995. Based on these tests, InterTech will work with customer agencies to recover the data files and applications being tracked. Within the limits of hot-site test time available, most applications currently operating in the InterTech environment should be recoverable using SUNRISE by the end of FY96. Use of SUNRISE will also allow improvement in the frequency with which back-ups of data files are effected. InterTech will work with our customer agencies to improve the timely back-up of critical data files.

Finding #2: InterTech has not adequately tracked computers being used by employees at home.

Although InterTech has not issued written procedures relating to employees' use of computers at home, informal procedures have been in effect for some time. An employee who wants to use state-owned computer equipment at home must obtain the approval of his/her supervisor. A copy of the request and approval must be provided to the LAN/Asset unit of the Business Management and Control Division. The unit is responsible for maintaining InterTech's equipment inventory and also maintains the file of computer sign-out authorizations.

A written policy governing the use of state-owned computers at home will be finalized by April 1, 1995. Detailed procedures will be developed and published by April 30, 1995.

Finding #3: Agencies have used bond proceeds for non-capital expenditures.

For the most part, items listed in this finding relate to the Moose Lake conversion project, in which a state treatment facility was refurbished and rehabilitated into a state correctional institution. Over the years, the departments of Administration and Finance have worked to more clearly define the types of equipment that can be purchased with bond proceeds in order to equip a building for original occupancy. The state's bond counsels have not issued consistent

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determinations of the specific equipment purchases that are allowable from bond proceeds in order to equip a building for original occupancy or, in this case, equip a building for a new and vastly different use after a major conversion and rehabilitation. The Department of Administration will continue to seek legal guidance concerning the use of bond proceeds for "original equipment" and will work with the Department of Finance to improve the guidelines utilized in the capital bonding process.

Finding #4: Administration and the Capitol Area Architectural and Planning Board did not adequately control joint projects.

The Department of Administration's State Building Construction Division has worked with the Capitol Area Architectural and Planning Board to prepare an agreement that will cover the administration of joint projects. The agreement was completed and sent to the Board for its approval in May 1993. The Board has not yet taken action on the agreement. We will continue to work with the Board to establish written procedures for joint projects.

Finding #5: Motor Pools accounts receivable process needs to be improved.

Motor Pool is currently contacting agencies to resolve outstanding accounts receivable. Implementation of a new computerized operating system for car leasing and a new accounts receivable system is currently underway in Motor Pool. These new systems will provide more detailed information and allow for quick and easy identification of outstanding accounts receivable. Monitoring and pursuit of past due accounts will continue on a monthly basis.

Thank you for the opportunity to review and comment on the audit. We appreciate the professionalism with which the audit was conducted and your suggestions for improving our internal control processes and procedures.