Department of Administration

Financial Audit
Fiscal Year Ended June 30, 1996

February 1997

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Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

97-11

Centennial Office Building, Saint Paul, MN 55155 ● 612/296-4708

STATE OF MINNESOTA
OFFICE OF THE LEGISLATIVE AUDITOR
CENTENNIAL BUILDING, 658 CEDAR STREET • ST. PAUL, MN 55155 • 612/296-4708 • TDD RELAY 612/297-5353
JAMES R. NOBLES, LEGISLATIVE AUDITOR

Members of the Legislative Audit Commission

Ms. Elaine Hansen, Commissioner
Department of Administration

We have audited selected aspects of the Department of Administration for the fiscal year ended June 30, 1996, as further explained in Chapter 1. Our audit scope included various activities of the Internal Service Funds and the Building Fund. This was not a complete audit of all financial activities of the Department of Administration. The work conducted in the department is part of our Statewide Audit of the state of Minnesota's fiscal year 1996 financial statements. The Comprehensive Annual Financial Report for the year ended June 30, 1996, includes our report dated December 2, 1996. The following summary highlights the audit objectives and conclusions. We discuss our concerns more fully in the individual chapters of this report.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, as issued by the Comptroller General of the United States. Those standards require that we obtain an understanding of management controls relevant to the audit. These standards also require that we design the audit to provide reasonable assurance that the department complied with provisions of laws and regulations that are significant to the audit. The management of the Department of Administration is responsible for establishing and maintaining the internal control structure and ensuring compliance with applicable laws, regulations, contracts, and grants.

This report is intended for the information of the Legislative Audit Commission and the 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 February 21, 1997.

We thank the staff at the Department of Administration for their cooperation during this audit.

James R. Nobles
Legislative Auditor

John Asmussen, CPA
Deputy Legislative Auditor

End of Fieldwork: December 13, 1996

Report Signed On: February 17, 1997

SUMMARY

State of Minnesota
Office of the Legislative Auditor
1st Floor Centennial Building
658 Cedar Street • St. Paul, MN 55155
(612)296-1727 • FAX (612)296-4712
TDD Relay: 1-800-627-3529
email: auditor@state.mn.us
URL: http://www.auditor.leg.state.mn.us

Department of Administration

Financial Audit
For the Fiscal Year Ended June 30, 1996

Public Release Date: February 21, 1997 No. 97-11

Background

The Department of Administration provides a variety of business management and administrative services to state and local government agencies. The department consists of 5 bureaus and 22 divisions. Its programmatic areas include the InterTechnologies Group, the Operations Management Bureau, the Facilities Management Bureau, the Information Policy Office, the Administrative Services Bureau, and the Management Analysis Division. Ms. Elaine Hansen serves as the commissioner of the department.

Audit Scope and Conclusions

Our audit scope was limited to those activities material to the state of Minnesota's Comprehensive Annual Financial Report for the year ended June 30, 1996.

We concluded that InterTechnologies Group's computer services fee revenue, telecommunications fee revenue, fixed assets, professional and technical services expenses, computer and system services expenses, and network services expenses, as reported in the state's financial statements, are fairly stated in compliance with generally accepted accounting principles. However, we found that the InterTechnologies Group did not account for capital leases properly and did not pay all its invoices promptly.

In the Operations Management Bureau, we concluded that Central Stores net sales and cost of goods sold, PrintComm printing revenue, Risk Management insurance premium revenue, and Central Motor Pool fixed asset and vehicle rental revenue, as reported on the state's financial statements, are fairly stated in compliance with generally accepted accounting principles. However, we did identify one problem with the way Central Motor Pool recognizes new vehicle purchases on its financial statements.

Finally, in the Facilities Management Bureau, we concluded that Building Construction Division construction expenditures and Plant Management lease rental revenue, operating transfers, and utility expenses, as reported in the state's financial statements, are fairly stated in compliance with generally accepted accounting principles.

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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
Susan Rumpca, CPA	Auditor-in-Charge
Steven Johnson	Auditor
Susan Kachelmeyer	Auditor
Scott Tjomsland	Auditor

Exit Conference

We discussed the findings and recommendations in this report with the following staff of the Department of Administration on February 3, 1997:

Elaine Hansen	Commissioner
Marcia Hansen	Executive Assistant
Julie Smith-Zuidema	Assistant to the Commissioner
Douglas Schneider	Acting Assistant Commissioner for InterTech
Shari Huck	InterTech Financial Management
Kent Allin	Assistant Commissioner for Operations Management
Dennis Spalla	Assistant Commissioner for Facilities Management
Beverly Schuft	Assistant Commissioner for the Information Policy Office
Judy Plante	Director of Management Analysis
Sheila Reger	Director of Human Resources
Scott Simmons	Legislative Liaison
Larry Freund	Director of Financial Management and Reporting
Veronica Legan	Accounting Director
Judy Hunt	Internal Auditor

Chapter 1. Introduction

The Department of Administration provides a variety of business management and administrative services to state and local government agencies. The department consists of 5 bureaus and 22 divisions. Its programmatic areas include the InterTechnologies Group, the Operations Management Bureau, the Facilities Management Bureau, the Information Policy Office, the Administrative Services Bureau, and the Management Analysis Division. The department's primary funding source is self-supporting, fee-based operations. Other funding sources include General Fund appropriations, gifts, and federal grants. Ms. Elaine Hansen serves as the commissioner of the department.

Our scope was limited only to those aspects of the Department of Administration's financial activities which are material to the financial activities of the state of Minnesota for the year ended June 30, 1996. The activities which are material to the financial activities of the state are shown on Table 1-1.

Table 1-1
Selected Financial Activities
Year Ended June 30, 1996

Revenue Programs	
InterTechnologies Fund:	
Computer Services fee revenue	$37,691,015
Telecommunications fee revenue	21,583,461
Central Stores Fund sales revenue	7,025,237
PrintComm Fund fee revenue	4,935,049
Risk Management Fund insurance revenue	5,653,015
Central Motor Pool Fund rental revenue	6,602,652
Plant Management Fund lease revenue	25,476,278
Expense/Expenditure Programs	
InterTechnologies Fund:	
Professional and technical services	7,104,890
Computer and system services	5,645,680
Network services	17,743,444
Fixed asset purchases	13,768,431
Central Stores Fund cost of goods sold	5,777,731
Central Motor Pool Fund fixed asset purchases	4,089,643
Plant Management Fund:	
Utility expenses	5,273,522
Transfers	9,679,313
Building Construction Division expenditures (selected)	65,036,940

Source: State of Minnesota Comprehensive Annual Financial Report for the year ended June 30, 1996.

The Department of Administration sets rates based on anticipated usage and estimated expenses for some of the programs we audited. The Department of Finance has statutory responsibility to approve the rates these programs charge. We did not review or evaluate the rate setting process for any of the department's programs.

The primary objective of the Statewide Audit is to render an opinion on the state of Minnesota's financial statements included in its Comprehensive Annual Financial Report for fiscal year 1996. This includes whether the financial statements of the state present fairly its financial position, results of operations, and changes in cash flows in conformity with generally accepted accounting principles. As part of our work, we are required to gain an understanding of the internal control structure and ascertain whether the state complied with laws and regulations that may have a material effect on its financial statements.

We have developed findings and recommendations for the selected areas we audited. In Chapters 2 through 4, we discuss our findings for the Department of Administration.

Chapter 2. InterTechnologies Group

Chapter Conclusions

InterTechnologies Group (InterTech) computer service fee revenue, telecommunications fee revenue, fixed assets, professional and technical services expenses, computer and system services expenses, and network services expenses, as reported in the state's financial statements, are fairly stated in compliance with generally accepted accounting principles. We noted, however, that InterTech did not properly account for capital leases and did not pay all invoices promptly.

The InterTechnologies Group (InterTech) is the core computer and telecommunications operations organization for state agencies. It charges fees for storing, processing, and transporting information for state agencies. Table 2-1 shows the significant operating activities of the bureau for the year ended June 30, 1996. The scope of our audit included computer service fee revenue, telecommunications fee revenue, fixed assets, professional and technical services expenses, computer and systems services expenses, and network services expenses.

Table 2-1
InterTechnologies Group Operating Statement
Year Ended June 30, 1996

Operating Revenues:	
Computer Service Fees	$37,691,015
Telecommunications Fees	21,583,461
Other Income	418,720
Total Operating Revenues	$59,693,196
Operating Expenses:	
Network Services	17,743,444
Professional and Technical Services	7,104,890
Computer and System Services	5,645,680
Depreciation	11,195,695
Salaries and Fringe Benefits	11,540,499
Other Expenses	7,288,791
Total Operating Expenses	$60,518,999
Operating Loss (1)	($ 825,803)

(1) InterTech reduced its rates for the period from March through June 1996, resulting in a planned decrease in earnings for the fiscal year.

Source: InterTech financial statements prepared by the Department of Administration's Fiscal Services Division.

The primary objective of our audit of the InterTechnologies Group was to render an opinion on the annual financial statements for fiscal year 1996. To meet this objective, we gained an understanding of the controls over InterTech revenue, expenses, and fixed assets. We reviewed

InterTech's process to invoice customers for computer and telecommunications services and to collect revenue from customers. We also reviewed InterTech's process to pay expenses. Finally, we looked at InterTech's fixed asset purchases, disposals, and depreciation.

InterTech provides various types of computer services to its customers. These services include maintaining customer access to mainframe applications, storing data using various storage media, and providing electronic and voice mail service. InterTech bills customers based on usage at rates approved by the Department of Finance. Examples of usage units include computer processing unit seconds, storage units, such as megabyte days, and number of subscribing users.

InterTech also manages and operates telecommunications products and services for the state. In fiscal year 1996, InterTech began managing local voice service in addition to its other managed services, which include long distance voice, network, video conferencing, and other services such as broadcast fax and never busy fax. Telecommunications service providers invoice InterTech for services provided to customers. InterTech then allocates usage units to its customers and invoices customers at rates approved by the Department of Finance.

InterTech purchases and maintains equipment necessary for its business operations. In accordance with Minn. Stat. Section 16A.85, InterTech uses a master lease program to provide financing for many of its asset purchases. During fiscal year 1996, Intertech invested over $13.7 million in new fixed assets. Intertech reported a net fixed asset balance of $26,956,204 as of June 30, 1996.

InterTech historically established contracts with vendors for system development and production, which are classified as professional and technical services. Other state agencies used these services. Contractors invoiced InterTech for these services, and InterTech paid the contractors. InterTech, in turn, billed back these costs plus a markup to the state agencies which used the services. InterTech discontinued this arrangement at the end of January 1996.

Other InterTech expenses include software usage and licensing fees, as well as production and maintenance services. These items are classified as computer and system services. InterTech also purchases network services consisting primarily of telephone services, video conferences, and fax charges.

We found that computer service fee revenue, telecommunications fee revenue, fixed assets, professional and technical services expenses, computer and system services expenses, and network services expenses, as reported on the state's financial statements, are fairly stated in compliance with generally accepted accounting principles. We did note, however, the following two issues during our review.

1. InterTech did not properly account for certain leased equipment.

InterTech did not properly account for certain equipment that it leases to other state agencies. A lease is a contractual agreement between a lessor and a lessee that gives the lessee the right to use specific property, owned by the lessor, for a specific period in time in return for periodic cash payments. InterTech generally buys all of its computer equipment and charges agencies a fee for the use of the equipment. However, InterTech has some unique arrangements with certain agencies. In those arrangements, although InterTech purchases the equipment, in substance, the other state agencies are buying the equipment over a period of time. These arrangements are known as "capital leases". Since the accounting for equipment as capital leases differs from accounting for regular fixed asset purchases, InterTech must identify those purchases which qualify as capital leases and properly account for them. In fiscal year 1996, we identified about $262,000 of capitalized lease equipment at InterTech.

Recommendation

- *InterTech should review its equipment arrangements with state agencies and properly identify and account for all capital lease arrangements.*

2. InterTech did not always pay its outstanding invoices promptly.

InterTech did not pay invoices promptly in 6 of 26 items we tested. In one instance, InterTech paid from a duplicate invoice about 2 1/2 months after it received the duplicate. In another instance, InterTech paid a software license about 3 1/2 months after receipt of the invoice. The invoice terms specified that the payment was due 30 days from the invoice date or the date the license begins. InterTech paid three other invoices 35 days after receipt of the invoice. In another instance, InterTech paid an invoice 78 days after receipt of the invoice. In that case, InterTech Business Services sent the invoice to the person who ordered the goods or services to verify receipt. Payment was delayed until that person approved the invoice and sent it back to Business Services for entry into the accounting system. Minn. Stat. Section 16A.124, Subd. 3, requires that state agencies pay invoices within the early discount period or within 30 days of the receipt of the invoice.

Recommendation

- *InterTech should pay invoices within the early discount period or within 30 days of receipt of the invoice, as required by Minn. Stat. Section 16A.124.*

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Chapter 3. Operations Management Bureau

Chapter Conclusions

Central Stores net sales and cost of goods sold, PrintComm printing revenue, Risk Management insurance premium revenue, and Central Motor Pool fixed assets and rental revenue, as reported on the state's financial statements, are fairly stated in compliance with generally accepted accounting principles. We did identify, however, one problem with the way Central Motor Pool recognizes new vehicle purchases on its financial statements.

The Operations Management Bureau consists of five divisions which offer services ranging from a central motor pool and printing operations to the state's self-insurance program. The bureau's five divisions are Materials Management, Minnesota Office of Citizenship and Volunteer Services, Communications.Media, Risk Management, and Travel Management. From the Operations Management Bureau, we audited selected components of Materials Management, Communications.Media, Risk Management, and Travel Management.

Materials Management Division

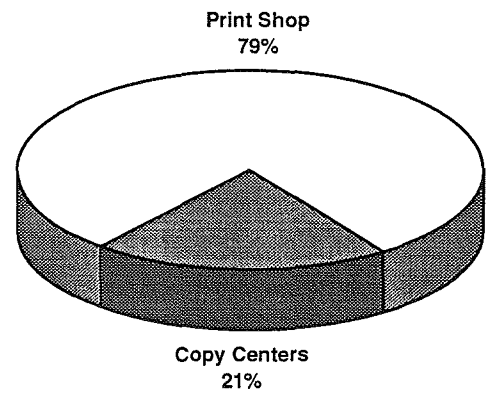
Within the Materials Management Division, we audited Central Stores net sales and cost of goods sold. Central Stores is a centralized supplies purchasing, storage, and distribution center. Central Stores purchases paper and office supplies from vendors, then sells these items to state agencies and other government agencies. Central Stores participates in a "stockless" inventory program with one vendor, where customers pass orders through Central Stores to a vendor. The vendor ships the goods directly to the customer. The customer pays Central Stores, which in turn pays the vendor. Central Stores reported $7,025,237 in net sales and $5,777,731 in cost of goods sold on the state's financial statements for the year ended June 30, 1996.

The primary objective of our audit of Central Stores was to render an opinion on the net sales and cost of goods sold reported on the annual financial statements for fiscal year 1996. To meet this objective, we gained an understanding of the controls over sales and purchases of supplies. We reviewed the process Central Stores used to invoice customers for supplies and collect receipts from customers. We also reviewed the process Central Stores used to purchase supplies from vendors. We found that Central Stores net sales and cost of goods sold as reported on the state's financial statements are fairly stated in compliance with generally accepted accounting principles.

Communications.Media

The Communications.Media Division is comprised of four main businesses: retail and editorial services, printing and copying, mailing and distribution, and records management services. Our audit focused on selected activities within the printing and copying business, called PrintComm. PrintComm runs a print shop and three photocopy centers in Saint Paul. State agencies are not required to use the print shop or copy centers. Rather, PrintComm must compete with outside vendors for state business. PrintComm reported net revenue of $4,935,049 on the state's financial statements for fiscal year 1996. Figure 3-1 shows PrintComm revenue sources for fiscal year 1996.

Figure 3-1 PrintComm
Revenue Sources
Year Ended June 30, 1996



Source: Revenue information from PrintComm for the year ended June 30, 1996.

The primary objective of our audit of PrintComm was to render an opinion on the net sales reported on the annual financial statements for fiscal year 1996. To meet this objective, we gained an understanding of the controls over print shop and copy center sales. We reviewed the process the print shop and the copy centers used to invoice customers for goods and services provided and to collect receipts from customers. We found that PrintComm net sales, as reported on the state's financial statements, are fairly stated in compliance with generally accepted accounting principles.

Risk Management

The Risk Management Division is responsible for the development and operation of the state's risk and insurance program. The division's mission is to minimize the state's exposure to financial loss while providing economically sound insurance coverage. The division offers a variety of self-insured and outside vendor (purchased) options. Although originally intended to focus on automobile liability exposure, in recent years, the Legislature has expanded Risk Management's responsibility to include developing a comprehensive property insurance program for all state agencies. Risk Management reported operating revenue of $5,653,015 for fiscal year 1996. Table 3-1 shows the Risk Management insurance premium revenue categories.

Table 3-1 Risk Management
Insurance Premium Revenues
Year Ended June 30, 1996

Type of Insurance Premium:	
Automobile Liability	$2,089,064
Automobile Comprehensive and Collision	187,867
Worker's Compensation (1)	485,946
Other Self Insurance	2,097,174
Billback Premiums (2)	792,964
Total	$5,653,015

(1) Allocations of workers' compensation premiums within the Department of Administration only.
(2) Insurance coverage purchased from an outside vendor and billed back to an agency.

Source: Risk Management Division's Statement of Revenues and Expenses for the year ended June 30, 1996.

The primary objective of our audit of Risk Management was to render an opinion on the insurance premium revenue reported on the state's financial statements. To meet this objective, we gained an understanding of the controls over Risk Management revenue. We reviewed the process Risk Management used to invoice customers and to collect receipts from customers. We found that Risk Management insurance premium revenue, as reported on the state's financial statements, is fairly stated in compliance with generally accepted accounting principles.

Travel Management

The Travel Management Division offers three major services to state agencies. First, Central Motor Pool provides vehicle rentals, including vehicle maintenance and repair. Second, the division provides a fleet of passenger vans for state employees who commute to work in a van pool. Finally, the division offers a corporate credit card program, preferred travel vendors, and monthly bus cards. Minn. Stat. Section 16B.54 establishes Central Motor Pool and the Motor Pool Fund. We limited our scope to a review of Central Motor Pool fixed asset purchases, disposals, and depreciation, as well as a review of vehicle rental revenue.

Central Motor Pool reported a net vehicle asset balance of $12,352,582 as of June 30, 1996. Vehicles comprise over 98 percent of the division's total fixed assets. Central Motor Pool receives most of its revenues through daily, weekly, and monthly vehicle rental to state agencies. Central Motor Pool charges customers a daily or monthly rate plus a variable rate. The variable rate is based on mileage. The rates cover gasoline, oil, tires, normal operating maintenance, and insurance costs. Central Motor Pool reported vehicle rental fees of $6,602,652 on the state's fiscal year 1996 financial statements.

The primary objective of the audit of Central Motor Pool was to render an opinion on the fixed assets and rental revenue reported on the state's financial statements. To meet this objective, we reviewed the process Central Motor Pool used to purchase vehicles, invoice customers for usage, and collect receipts from customers. We obtained evidential matter through inquiries of key personnel and inspection of documents. We analyzed financial data and determined that the results were reasonable. We found that Central Motor Pool fixed assets and rental revenue, as reported on the state's financial statements, are fairly stated in compliance with generally accepted accounting principles. However, we found that Central Motor Pool did not recognize all of its new vehicle purchases correctly on its financial statements.

3. Central Motor Pool did not record certain new vehicle purchases timely.

Central Motor Pool did not recognize certain vehicles which it received by June 30 on its financial statements. Instead, the division used an asset recognition process which was not consistent with generally accepted accounting principles. Central Motor Pool capitalized vehicles received on or after the 23rd of the month on the first of the following month. Assets received on or before June 30, 1996, should have been capitalized in fiscal year 1996. For fiscal year 1996, Central Motor Pool received vehicles costing $458,428 on or after June 23, 1996, which initially were not recorded on the June 30, 1996, balance sheet. Since Central Motor Pool typically receives most new vehicles during the final months of the fiscal year, the potential exists for a material amount of assets not being recorded on the financial statements.

Recommendation

- *Central Motor Pool should change the asset recognition policy to capitalize all assets received on or before June 30 in that fiscal year.*

Chapter 4. Facilities Management Bureau

Chapter Conclusions

Building Construction Division construction expenditures as reported on the state's financial statements are fairly stated in compliance with generally accepted accounting principles. Plant Management rental revenue, operating transfers, and utility expenses as reported on the state's financial statements are fairly stated in compliance with generally accepted accounting principles.

The Facilities Management Bureau is responsible for managing the state's real property, including land and physical plant. It is comprised of the following divisions:

- Building Construction
- Plant Management
- Building Codes and Standards
- Real Estate Management

Within the Facilities Management Bureau, we audited selected components of the Building Construction and Plant Management Divisions.

Building Construction Division

The Building Construction Division coordinates and monitors capital construction and improvement projects for state-owned buildings. Building Construction helps agencies develop project predesigns, estimate project budgets, and obtain project authorization. Once projects are approved, Building Construction assists with establishing final project designs and budgets, selecting and contracting with building contractors, monitoring project progress, and authorizing and disbursing capital fund expenditures. In addition, Building Construction manages the Statewide Building Access Program and the Capital Asset Preservation and Replacement Account (CAPRA). The Statewide Building Access Program provides capital funds to state agencies that need to improve building access for handicapped individuals. CAPRA provides capital funds to state agencies that need to make immediate, relatively small scale improvements to buildings. During the audit, we looked at specific projects which had construction expenditures over $65 million.

The primary objective of our audit of the Building Construction Division was to verify the reasonableness of building construction expenditures reported on the annual financial statements for fiscal year 1996. To meet this objective, we gained an understanding of the controls over building construction expenditures. We reviewed Building Construction's process to select and establish contracts with consultants and building contractors, to monitor and review project progress, to authorize capital expenditures, and to disburse capital funds. We found that the

Building Construction Division's construction expenditures, as reported on the state's financial statements, are fairly stated in compliance with generally accepted accounting principles.

Plant Management Division

The Plant Management Division maintains buildings under the control of the Department of Administration, manages parking facilities in the Capitol Complex, and promotes energy conservation and recycling on a statewide basis. A breakdown of its operations follows:

- Complex Operations includes housekeeping, engineering, monitoring automated systems, and installing electronic systems.

- Complex Services includes material transfer services, grounds keeping, snow removal, recycling center operation, resource recovery assistance, and special events coordination.

- Support Operations includes coordinating parking and carpooling, scheduling services in response to tenant/building issues, scheduling conference rooms, and providing administrative and accounting support for the division.

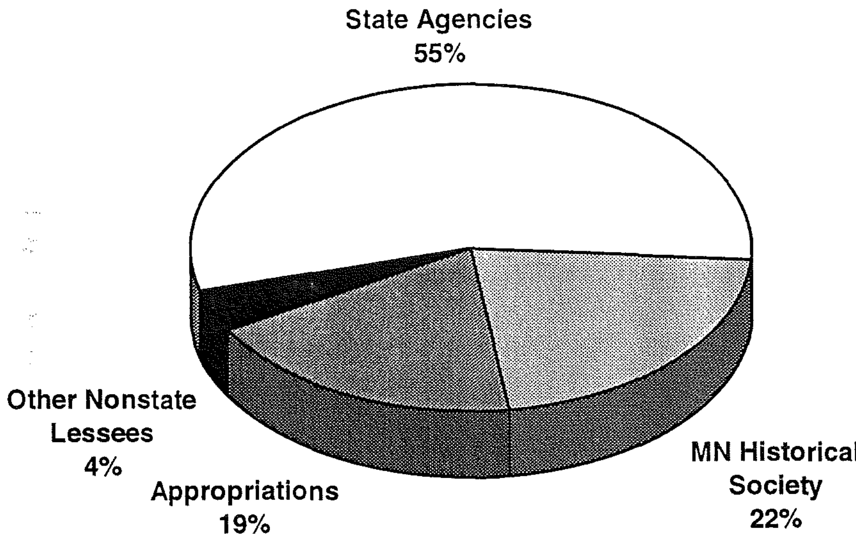
- Technical Services provides building maintenance coordination and trade services such as painting, carpentry, plumbing, electrical, and refrigeration. It also focuses on statewide energy efficiency improvements.

Plant Management invoices lessees for building occupancy based on square footage. It establishes rates based on estimated operating expenses. Plant Management received $25,476,278 in lease revenue during fiscal year 1996 from the sources shown in Figure 4-1.

During fiscal year 1996, Plant Management transferred $9,679,313 to the General Fund and the Trunk Highway Fund for depreciation and bond interest. The Plant Management Internal Services Fund does not own the state buildings for which it receives lease revenue. The lease rates include depreciation and bond interest on the buildings. The Department of Administration transfers the money collected for building depreciation and bond interest to the fund which financed the original building construction. Plant Management also pays the electricity, water, sewage, heat, and other utility expenses for the buildings it operates. Plant Management reported $5,273,522 for these expenses during fiscal year 1996.

The primary objective of our audit of Plant Management was to render an opinion on the rental revenue, utility expenses, and operating transfers reported on the annual financial statements for fiscal year 1996. To accomplish this objective, we reviewed lease revenue calculations. We reviewed and tested fund transfers made for bond interest and building depreciation. We also analyzed the utility expenses for reasonableness. We found that Plant Management lease revenues, operating transfers, and utility expenses, as reported on the state's financial statements, are fairly stated in compliance with generally accepted accounting principles.

Figure 4-1
Plant Management Revenue Sources
Year Ended June 30, 1996



Source: Plant Management Lease Revenue Spreadsheet, Department of Administration's Fiscal Services Division.

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Admin MINNESOTA Department of Administration

Office of the Commissioner
200 Administration Building
50 Sherburne Avenue
St. Paul, MN 55155
VOICE: 612.296.1424
FAX: 612.297.7909
TTY: 612.297.4357

February 13, 1997

Mr. James R. Nobles
Legislative Auditor
First Floor, Centennial Office Building
658 Cedar Street
St. Paul, MN 55155

Dear Jim:

In reviewing our FY96 audit report, we would like to respond to recommendations in Chapters 2 and 3, involving InterTech and Travel Management.

INTERTECHNOLOGIES GROUP

1. **InterTech leased equipment.**

RESOLVED. InterTech has identified equipment purchase arrangements with other state agencies that qualify as capital leases. These lease arrangements will be reclassified in the financial records for FY97 by removing the equipment from fixed assets and recording them as receivables. New procedures are in place so that future arrangements of this type will be properly recorded.

2. **InterTech invoice payment.**

RESOLVED. InterTech identified three situations that impacted the prompt payment of six invoices. One late invoice occurred because the vendor was not Human Rights certified. Once proper certification was received and verified, payment was processed. Three late invoices were the result of contested merchandise. At the time these invoices were processed, the Minnesota Accounting and Procurement System (MAPS) did not provide a method to record an invoice as contested. The MAPS has since been adjusted to accept an entry marking a payment as contested. The remaining late invoices resulted from awaiting managers' approvals. Previously, InterTech relied on a prompt payment report to monitor payment performance. To date, there is no MAPS prompt payment report available to agencies. In an effort to improve payment performance, InterTech has initiated an internal manual method to track and monitor prompt payment.

OPERATIONS MANAGEMENT

3. **Travel Management new vehicle purchases.**

RESOLVED. Travel Management has revised its procedures for capitalizing vehicles that are received at the end of the fiscal year. New procedures require the inclusion, on the balance sheet statement, of all vehicles received prior to the end of the fiscal year. These procedures have been implemented for FY97. An adjustment was made to the final FY96 Travel Management financial statement, prior to its inclusion in the State of Minnesota Comprehensive Annual Financial Report, to include those vehicles received before July 1, 1996.

We would like to take this opportunity to commend your staff for their professionalism during the audit and the exit conference and for their willingness to discuss our concerns following that meeting.

Sincerely,

Elaine S. Hansen
Commissioner

esh/mh
c: John Asmussen
Jeanine Leifeld