

**Minnesota Office of Technology
Financial Audit**

For the Period from July 1, 1996, to June 30, 1998

December 1998

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

98-64



STATE OF MINNESOTA
OFFICE OF THE LEGISLATIVE AUDITOR
JAMES R. NOBLES, LEGISLATIVE AUDITOR

Senator Deanna Wiener, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Ms. JoAnn Hanson, Executive Director
Minnesota Office of Technology

We have audited the Minnesota Office of Technology for the period July 1, 1996, through June 30, 1998, as further explained in Chapter 1. Our audit scope included the following areas: general financial management, travel, grants, payroll, and other administrative expenditures. The following Summary highlights our audit objectives and conclusions. We discuss the audit objectives and conclusions 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. The standards also require that we design the audit to provide reasonable assurance that the Office of Technology complied with provisions of laws, regulations, contracts, and grants that are significant to the audit. Management of the office is responsible for establishing and maintaining the internal control structure and complying with applicable laws, regulations, contracts, and grants.

Pursuant to Minn. Stat. Section 3.975, this report has been referred to the Attorney General. The Attorney General has the responsibility to ensure the recovery of state funds and, in fulfilling that role, may negotiate the propriety of individual claims.

This report is intended for the information of the Legislative Audit Commission and the management of the Office of Technology. This restriction is not intended to limit the distribution of this report, which was released as a public document on December 30, 1998.

Handwritten signature of James R. Nobles in black ink.

James R. Nobles
Legislative Auditor

Handwritten signature of Claudia J. Gudvangen in black ink.

Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

End of Fieldwork: October 28, 1998

Report Signed On: December 22, 1998

SUMMARY

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Minnesota Office of Technology

Financial Audit

For the Period from July 1, 1996, through June 30, 1998

Public Release Date: December 30, 1998

No. 98-64

Agency Background

The Minnesota Office of Technology was created by Executive Order in May 1996. During the 1997 session, the Legislature established the office as a separate state agency. In Minn. Stat. Chapter 16E, the Legislature designated the office's executive director as "the state's chief information officer and technology advisor to the governor." John Gunyou served as the office's executive director from its inception until December 1997. JoAnn Hanson is the current executive director.

Audit Scope and Conclusions

Our audit scope included general financial management, travel, grants, payroll, and other administrative expenditures for the period from July 1, 1996, through June 30, 1998.

The office had no direct appropriation to fund its activities during fiscal year 1997. As a result, the office relied on funding and staff from a number of state agencies to carry out its mission. We found that these funding arrangements created awkward situations where the officials designated by the Legislature as responsible for appropriations could not effectively exercise control over the use of the money. We think the state should avoid such funding arrangements in the future.

We found two significant concerns relating to the office's overall financial management. Generally, we found that the office showed a lack of fiscal responsibility in many of its early spending decisions. We also found that the office did not adequately separate key financial duties among its staff.

Some office travel expenditures did not comply with applicable employee bargaining agreements and Department of Finance policies. The office erroneously paid certain employee expenses, resulting in duplicate payments. In some cases, the office paid for unreasonable expenses and was not prudent in its travel decisions.

We found that the office did not maintain sufficient control over its grants to ensure that grant funds were being used in compliance with applicable legal provisions. We also found that the office did not comply with state policies over bidding and special expense purchases.

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Audit Participation

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

Claudia Gudvangen, CPA	Deputy Legislative Auditor
Jeanine Leifeld, CPA, CISA	Audit Manager
Marla Conroy, CPA, CISA	Director of Investigations
Lori Kloos, CPA	Auditor-in-Charge
Anna Lamin	Auditor

Exit Conference

We discussed our findings and recommendations with the following representatives of the Office of Technology at an exit conference held on December 9, 1998:

JoAnn Hanson	Executive Director
Richard Auld	Deputy Director

We also discussed our findings and recommendations with John Gunyou, former executive director, on December 9, 1998.

In addition, we discussed selected portions of this report with Michael Norton, Jane Leonard, and Scott Brener.

Chapter 1. Background

The Office of Technology was originally created by Executive Order 96-8, signed by the Governor on May 24, 1996. The executive order established an Office of Technology Coordination within the Department of Children, Families & Learning. The executive order cited the following duties for the office:

1. Review the provision of services through technology and the use of local, state, and federal funds and resources, and advise the governor on methods of coordinating these services and uses of funds and resources.
2. Recommend to the governor, legislature, and affected state agencies, goals, methods, and policies for the intergovernmental development and coordination of education technology throughout the state.
3. Recommend to the governor a strategic plan that details methods to be used to coordinate existing and future efforts in this area.
4. Coordinate the development, implementation, and evaluation of the technologies and related policies used in state and local educational entities.

On June 18, 1996, the Governor appointed John Gunyou to a temporary position in the Governor's Office to complete implementation of the executive order and establish the office.

Because the office was established by executive order, there was no direct appropriation to fund its activities during fiscal year 1997. As a result, the office relied on funding and staff from a number of state agencies to carry out its mission. Chapter 2 further discusses the office funding in fiscal years 1997 and 1998.

In the Laws of 1997, Chapter 202, Article 3, the Legislature officially established the Office of Technology as a separate state agency. The new law expanded the duties and powers of the office, including the transfer of duties formerly performed by the Information Policy Office in the Department of Administration. In Minn. Stat. Section 16E.02, the Legislature designated the office's executive director as "the state's chief information officer and technology advisor to the governor."

John Gunyou was the Executive Director of the Office of Technology from its inception until his resignation in December 1997. JoAnn Hanson is the current executive director of the office. She assumed that role in January 1998.

Table 1-1 identifies the sources and uses of funds for the office during fiscal years 1997 and 1998.

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Table 1-1
Sources and Uses of Funds
Fiscal Years 1997 and 1998

	<u>1997</u>	<u>1998</u>
Sources:		
Mobility Assignments (1)	\$447,000	\$ 0
Travel Funded by Other Organizations (2)	3,641	10,483
Department of Administration Appropriations (3)	406,845	0
Direct Appropriations (4)	0	6,639,000
Other	0	3,000
Total Sources:	<u>\$857,486</u>	<u>\$6,652,483</u>
Uses:		
Payroll (5)	\$648,827	\$1,755,371
Rent	55,013	175,718
Travel (6)	19,107	60,240
Supplies and Equipment	97,192	213,255
Grants	0	2,062,000
Other (8)	37,347	460,416
Balance Forward Out (7)	0	1,925,483
Total Uses	<u>\$857,486</u>	<u>\$6,652,483</u>

- 1) Value of the fiscal year 1997 mobility assignments based on the analysis shown in Table 5-1 less the \$147,000 funded through the Department of Administration, which is included in the Department of Administration Appropriations total.
- 2) Includes travel expenses paid by the following sources: University of Minnesota (\$2,093), World Trade Center (\$9,851), Department of Human Services (\$1,286), and others (\$894).
- 3) Department of Administration appropriations based on the analysis shown in Table 2-1.
- 4) Includes appropriations for operations (\$5,161,000), regional management information centers (\$978,000), and international trade activities (\$500,000).
- 5) Fiscal year 1997 payroll includes the estimated value of mobility assignments – See note 1 above.
- 6) Includes travel funded by other organizations - See note 2 above.
- 7) Represents balance forwarded to fiscal year 1999 as of the fiscal year 1998 MAPS close.
- 8) Fiscal year 1998 total includes \$45,992 in encumbrances outstanding as of the fiscal year 1998 MAPS close.

Source: Auditor analysis of Office of Technology and Department of Administration MAPS accounting data.

Chapter 2. Financial Management

Chapter Conclusions

We identified two significant concerns relating to the overall financial management of the Office of Technology. Generally, we found that the office showed a lack of fiscal responsibility in many of its early spending decisions. We also found that the office did not adequately separate key financial duties among its staff.

We found that the Office of Technology's funding arrangements during fiscal year 1997 created awkward situations where the officials designated by the Legislature as responsible for appropriations could not effectively exercise control over use of the money. They had limited ability to ensure that the funding was being spent in accordance with restrictions attached to their appropriations or with other general statutory provisions. We think that the state should avoid such funding arrangements in the future.

During fiscal year 1997, the Office of Technology relied on funding and staff from a number of state agencies to carry out its mission. In an October 16, 1996, letter to our office, Tanja L. Kozicky, Legal Counsel to the Governor, stated that funding for the office would be provided pursuant to interagency agreements under the authority of Minn. Stat. Section 471.59. The office received General Fund appropriations beginning in fiscal year 1998.

The office relied heavily on the Department of Administration for administrative support during fiscal year 1997. Beginning on July 1, 1997, the office established procedures to process its own purchases and payroll.

Audit Objectives and Methodology

Our objectives in reviewing the office's overall financial management were to answer the following questions:

- How much was spent to operate the office in fiscal year 1997, and were the funding sources used in fiscal year 1997 consistent with the purposes of the original legislative appropriations?
- Did the office design and implement internal controls to provide reasonable assurance that its financial activities were properly recorded on the state's accounting system (MAPS) and complied with applicable legal provisions and management authorizations?

To answer these questions, we reviewed the funding for office operating costs and reviewed the laws authorizing the appropriations. We interviewed Department of Administration and Office of Technology staff to gain an understanding of the procedures used for each of the individual

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program areas we audited. We also reviewed the transactions posted to MAPS to determine if the office properly recorded its expenditure transactions.

Fiscal Year 1997 Funding

The Department of Administration paid for a significant portion of the administrative costs of the Office of Technology during fiscal year 1997, primarily through funding that had been earmarked for the Government Information Access Council (GIAC). The Legislature established the GIAC in 1994, pursuant to Minn. Stat. Section 15.95. As cited in Subd. 5, the Legislature intended the council “to develop principles to assist elected officials and other government decision makers in providing citizens with greater and more efficient access to government information, both directly and through private businesses.” Subd. 8 went on to say: “the council shall also advise the Legislature on issues relating to an information institute to deal with major public policy issues involving access to government information and to foster the development of private sector information industries.” Pursuant to Subd. 11, the Department of Administration’s Information Policy Office provided staff and other support services to the council.

The commissioner of Administration told us that, since the mission of the Office of Technology was closely related to the purposes of GIAC, she approved the use of GIAC funding to establish the Office of Technology and to provide ongoing administrative support for the office during fiscal year 1997. The office’s executive director and deputy director generally made the spending decisions for use of the GIAC money. However, because the GIAC funding originated within one of its appropriations, the Department of Administration continued to process and pay the administrative expenditures made by the Office of Technology throughout fiscal year 1997.

GIAC had a direct appropriation of \$100,000, as well as an additional funding allocation within the Information Policy Office of \$300,844 for fiscal year 1997. Table 2-1 shows the total funding of the Office of Technology’s administrative costs provided by the Department of Administration for fiscal year 1997.

Table 2-1
Funding of Office of Technology Administrative Expenditures
By the Department of Administration
Fiscal Year 1997

<u>Funding Source:</u>	<u>Amount</u>
Information Policy Office Appropriation Allocation	\$300,844
Information Policy Office GIAC Appropriation Rider	100,000
Administration Relocation Appropriation	6,001
Total	<u>\$406,845</u>

Source: Review of Department of Administration accounting records for the year ended June 30, 1997.

During fiscal year 1997, the Office of Technology also obtained staff through a series of mobility assignments from other state agencies. Although the staff members worked under the direction of office management, the other agencies continued to pay their salaries. We discuss the details of the office’s fiscal year 1997 payroll in Chapter 5.

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Conclusions

We do not think that the methods used to set up and fund the office during fiscal year 1997 were effective in providing adequate control and oversight. Throughout fiscal year 1997, the Office of Technology was essentially spending the appropriated resources of other state agencies.

Even though the Department of Administration allowed the Office of Technology to use its appropriations, the commissioner of Administration was still ultimately responsible for the use of all funds appropriated to the department. Although the office employees reported to the executive director, they were all paid through appropriations to other agencies. Finally, the executive order placed the Office of Technology within the Department of Children, Families & Learning (CFL) and CFL paid for the executive director's salary for fiscal year 1997. However, the CFL commissioner did not exercise any oversight over either the executive director or the office.

These funding arrangements during fiscal year 1997 created awkward situations where the officials designated by the Legislature as responsible for the appropriations could not effectively exercise control over the use of the money. They had limited ability to ensure that the funding was spent in accordance with appropriation restrictions or other general statutory provisions. We believe that the state should avoid such funding arrangements in the future.

We identified two significant concerns relating to the overall financial management of the Office of Technology. Generally, we found that the office showed a lack of fiscal responsibility in many of its early spending decisions. We also found that the office did not adequately separate key financial duties among its staff.

1. The office was not fiscally responsible in many of its spending decisions.

The office did not follow state policies and procedures when making many of its early spending decisions. In addition, the office incurred costs that we think were unreasonable or imprudent. During our audit, we noted several instances where the office disregarded established state policies and procedures, including the following:

- The office erroneously paid some employee expenses, resulting in some duplicate payments (Finding 3).
- The office was not prudent in some of its travel decisions (Finding 4).
- The office did not ensure that frequent flyer miles earned on business travel accrued to the state (Finding 5).
- The office reimbursed employees incorrectly for mileage and meals (Finding 6).
- The office purchased goods without following the state's purchasing policies, including two furniture purchases totaling \$46,647 (Finding 11).
- The office frequently purchased meals and refreshments for employees without following the state's special expense policy (Finding 12).

As a result of these spending practices, the office did not spend some state funds appropriately and was not assured that it received the best value for the amounts expended.

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Recommendation

- *The Office of Technology should ensure that staff members are properly trained in state policies and procedures and that office disbursements comply with applicable laws and policies.*

2. The Office of Technology did not adequately separate key financial duties.

In some cases, the office assigned conflicting functions to the same employee. In addition, the office did not adequately limit computer system access to those functions needed to perform job duties. Allowing incompatible accounting responsibilities increases the risk of errors or irregularities occurring and not being detected in a timely manner. During our audit, we noted the following separation of duties issues:

- The payroll clerk had complete personnel access within the state's personnel/payroll system, including access to her own record. Also, during part of the audit period, there was no independent review of timesheet information (Finding 8).
- Four employees had complete access for procurement and payment in the state's accounting system. There was no independent review of expenditures (Finding 10).
- During most of the audit period, one employee was responsible for collecting all employee reimbursements, such as employee parking payments. There was no independent review of these reimbursements or the resulting deposits. In our analysis of employee parking reimbursements, we could not find documentation that three parking reimbursements, totaling \$94, were ever deposited. The office resolved the separation of duties problem over parking when it began collecting employee parking through payroll deduction in April 1998. However, the same employee still is solely responsible for collecting and recording other small employee reimbursements.

The office needs to review its staff responsibilities in all financial areas. Ideally, duties should be separated between custody, recording, authorization, and review of financial activities. If incompatible duties cannot be effectively separated, the office should provide for a periodic, independent review of the employee's work.

Recommendations

- *The Office of Technology should realign its accounting responsibilities to improve separation of duties.*
- *The Office of Technology should limit the computer system access given employees to the minimum needed to perform their job functions.*

Chapter 3. Travel

Chapter Conclusions

Some Office of Technology travel expenditures did not comply with applicable employee bargaining unit agreements and Department of Finance policies. The office inappropriately paid for certain employee expenses, resulting in duplicate payments. In some cases, the office paid for unreasonable expenses and was not prudent in its travel decisions. The office did not ensure that when an employee combined business and personal travel, the state only paid for expenses that directly related to the business portion of the trip. In addition, the office did not provide for the appropriate disposition of frequent flier miles its employees earned on business trips. Finally, the office paid incorrect mileage and meal reimbursements to its employees.

The Office of Technology incurred \$79,347 in travel expenses during the audit period. As shown in Table 1-1, other organizations agreed to pay for \$14,124 of these expenses. The University of Minnesota paid for airfare and the Department of Human Services paid for travel expenses when the former deputy executive director traveled to Thailand in May 1997 for the United Nations Trade Point Conference. In two other instances, the Minnesota World Trade Center reimbursed the Office of Technology for travel expenses incurred by employees traveling to conferences in Australia and China. The World Trade Center used grant funds received by the Office of Technology for Trade Point (See Chapter 4) to pay for these travel expenses.

Audit Objectives and Methodology

Our review of Office of Technology travel expenditures focused on the following questions:

- Did the Office of Technology design and implement internal controls to provide reasonable assurance that travel expenditures were accurately recorded in the accounting records and in compliance with applicable legal provisions and management authorizations?
- Did the office pay for inappropriate or unallowable employee expenses?

To answer these questions, we interviewed office employees to gain an understanding of the controls over travel. Because of the significant weaknesses we found in internal controls, we reviewed all employee travel expenditure transactions to determine if they were properly authorized, calculated, and recorded, and whether they complied with material finance-related legal provisions.

We also obtained frequent flier records from Northwest Airlines for selected Office of Technology employees. We analyzed the mileage accumulated and benefits received by these

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employees. We obtained documentation from Northwest Airlines for specific airline tickets, including information on their usage.

We also took sworn testimony from John Gunyou, the former Executive Director, on October 28, 1998.

Conclusions

As indicated in the following findings, some Office of Technology travel expenditures did not comply with applicable employee bargaining unit agreements and Department of Finance policies. The office inappropriately paid for certain employee expenses and was not prudent in its travel decisions.

3. The Office of Technology erroneously paid for some employee expenses.

In some cases, the office reimbursed employees without determining whether the employee was eligible to receive the payment. All three cases occurred in fiscal year 1997 when the Department of Administration processed the office's transactions. We identified three cases where the office paid for inappropriate claims.

- The Office of Technology did not detect a duplicate payment for a conference registration fee. In April 1997, John Gunyou, the former executive director, attended a National Association of State Information Resource Executives (NASIRE) conference in Colorado. On March 11, 1997, the Office of Technology paid NASIRE the \$195 registration fee. However, at the conference, the former executive director used his personal credit card to also pay the registration fee. The Office of Technology reimbursed the former executive director \$195 for the registration fee, not detecting that the fee had already been paid.
- The Office of Technology erroneously reimbursed the former executive director \$314 for an airline ticket. In December 1996, Mr. Gunyou traveled to Ohio to attend planning meetings for a conference. The Office of Technology purchased the airline ticket through a travel agency. In January 1997, Mr. Gunyou submitted an expense reimbursement request that included the cost of the airline ticket. The Office of Technology reimbursed Mr. Gunyou, based on a passenger ticket receipt, rather than a ticket payment receipt. On September 11, 1997, the Office of Technology also paid the travel agency \$314 for this airline ticket. Following our inquiries, Mr. Gunyou reviewed his personal records and indicated that he had not personally paid the airfare and should not have sought reimbursement. On December 2, 1998, Mr. Gunyou reimbursed the Office of Technology for \$314.
- The Office of Technology erroneously reimbursed the former deputy director \$303 for an airline ticket. Michael Norton, the former deputy director, attended a conference in San Francisco in November 1996. In December 1996, Mr. Norton submitted an expense reimbursement request that included the cost of the airline ticket. The request included a travel agency itinerary invoice reflecting the cost of the airfare. The itinerary invoice did not provide evidence that Mr. Norton had paid the airfare. The office reimbursed Mr. Norton for the \$303 airfare. Later, the Department of Administration received a notice

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from the travel agency, indicating that the airfare had not been paid and was 175 days overdue. There apparently was some confusion whether anyone had paid the travel agency. The Office of Technology knew it had reimbursed the former deputy director but failed to follow up to ensure the matter was resolved with the travel agency. Following our inquiries, Mr. Norton reviewed his personal records relating to this trip. Mr. Norton stated that he had given his personal credit card number to the staff person responsible for making his travel arrangements. Mr. Norton told us that he had submitted the itinerary invoice believing the airfare had been charged to his personal credit card. On October 28, 1998, Mr. Norton paid the travel agency \$303 for the cost of the ticket.

Recommendations

- *The office should improve controls over the processing and monitoring of employee travel expense reimbursements. The office should require employees to submit actual receipts as support for expenses incurred while traveling.*
- *The office should obtain reimbursement of the \$195 conference registration fee from NASIRE.*

4. The Office of Technology was not prudent in some of its travel decisions.

The Office of Technology incurred substantial airfare costs due to changes in travel itineraries. In addition, the office allowed employees to mix business and personal travel without ensuring that the state only paid for expenses that directly related to the business portion of the trip.

The Office of Technology unnecessarily incurred additional airfare costs due to changes in travel itineraries. The office generally purchased non-refundable tickets to take advantage of lower airfares. Because of this, subsequent changes to travel itineraries often resulted in additional airfare costs. For some trips, the office was able to obtain refunds from its travel agency or was allowed to transfer the ticket for use by another employee at a later date. In other cases, it appears the office purchased a second ticket at full price when the original ticket could have been changed for a small fee.

We noted the following examples of questionable travel arrangements:

- The Office of Technology purchased an airline ticket for the former executive director to attend the National Association of State Information Resource Executives (NASIRE) conference held in Virginia in September 1997. After the NASIRE conference, Mr. Gunyou planned to attend the Gartner Group IT Executive Program Annual Forum and Symposium in Florida. The office became a member of the Gartner Group in fiscal year 1998. The yearly membership fee included a complementary admission to the Gartner Group IT Executive Program Annual Forum held on October 2 - 4, 1997, in Florida. The office paid an additional \$1,695 for the former executive director to attend the Gartner Group Symposium scheduled for October 6 - 10, 1997.

Mr. Gunyou's original airline ticket included travel to Virginia with a subsequent flight from Virginia to Florida on October 1, 1997, returning to Minneapolis on October 10,

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1997. The original airline ticket cost \$597. On September 19, 1997, the Office of Technology purchased a second ticket with the same itinerary as the first ticket, except departing for Virginia later in the day. The airfare for the second ticket totaled \$1,703. The Office of Technology was unable to obtain a refund for the original ticket. Mr. Gunyou did not have a record of his schedule for this time period, but he told us that there must have been a business reason requiring him to leave later in the day, resulting in the purchase of a second ticket.

Mr. Gunyou traveled from Virginia to Florida on October 1, 1997, to attend the Forum. However, he decided not to stay for the symposium and purchased a ticket to Columbus, Ohio on October 4, 1997, for \$146. He traveled to Ohio for personal reasons and then purchased another ticket for \$440 to return to Minnesota on October 5, 1997. The Office of Technology did obtain a credit totaling \$645 from the airline for the second ticket's unused return segments. The state's net airfare cost for this trip was \$2,241. The former executive director could not recall the specific circumstances surrounding his early return. We found no evidence that the Office of Technology requested a refund of the symposium registration fee or attempted to find another employee to attend the symposium on behalf of the office.

- The Office of Technology purchased a total of two round-trip tickets and a one-way ticket for the former executive director to make one trip to Denver, Colorado in August 1997. On July 15, 1997, the Office of Technology bought a ticket for Mr. Gunyou to travel to Denver, departing on August 8, 1997. Mr. Gunyou was scheduled to make a presentation at the Virtual Learning Environments Conference, which was scheduled for August 11 – 13, 1997. The cost of the ticket was \$195. The ticket was non-refundable, however the return flight could be changed for a \$50 penalty provided the rules of the original fare were still met and the appropriate class of service was available.

On August 1, 1997, the Office of Technology purchased a second ticket with the same departure as the first ticket, but returning from Denver on August 13, 1997, at 5:45 p.m. instead of on August 14, 1997. The office did not attempt to change the first ticket before purchasing the second one. The total cost of the second ticket was \$388. The travel agency invoice indicated that this ticket was non-refundable and that no changes were allowed. However, a representative from Northwest Airlines told us that, although the ticket was non-refundable, changes could be made to the ticket by paying a penalty. The former executive director used the outbound segment of this ticket to travel to Colorado on August 8, 1997.

When the former executive director experienced a medical emergency while in Denver, the office purchased an additional one-way ticket back to Minnesota departing on August 13, 1997, at 2:00 p.m. instead of at 5:45 p.m. The office did not attempt to change either the first or second ticket to an earlier return flight. The former executive director stated that a Northwest Airlines representative told him that he could not make any changes to the second ticket's return segment. The cost of the third ticket totaled \$175. The former executive director returned to Minnesota using this one-way ticket.

The Office of Technology paid a total of \$758 in airfare for this trip. We found the unused first ticket at the Office of Technology. The disposition of the second ticket's

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return segment is unclear. We did not find the return ticket on file at the Office of Technology.

In addition, the former executive director took vacation on Friday, August 8, 1997, and traveled to Denver with a family member. The Office of Technology did not document the cost/benefit of traveling to Colorado three days prior to the conference. However, the office reimbursed Mr. Gunyou for lodging and meal expenses from Saturday through Tuesday, August 9 - 12, 1997. The office also reimbursed him for a rental car that was used August 8 - 13, 1997. There was no documented cost/benefit analysis showing that there was an overall cost savings based on the lower airfare obtained with a Saturday stay.

- In October 1997, the Office of Technology's former deputy director, Michael Norton, and its Trade Point Director, Jane Leonard, traveled to Melbourne, Australia to attend the United Nations Conference on Secure Infrastructures for Electronic Commerce. The conference was scheduled for October 30 - 31, 1997 in Melbourne Australia. Mr. Norton and his family traveled to Australia on Friday, October 24, 1997. The Office of Technology reimbursed him \$1,565 for the airfare to Australia. After the conference ended, Mr. Norton and his family traveled to Cairns, Australia for a personal trip. The Office of Technology reimbursed him for the airfare from Melbourne to Cairns totaling \$445. Mr. Norton justified the office's purchase of the Melbourne to Cairns trip by explaining that, since he had traveled to Australia on a Saturday, he had actually saved the state the cost of a higher Sunday airfare of \$2,905. The Office of Technology paid a total of \$2,010 for the airfare to Australia and the flight to Cairns. The state travel policy states, "When an employee combines business and personal travel, the state will only reimburse the employee for expenses incurred that are directly related to the business portion of the trip." Since there was no business purpose associated with traveling to Cairns after the conference, we question the payment for that portion of the trip. Mr. Norton stated that he believed the travel policy was unclear and would generally allow him to add an additional leg to this trip as long as the state's total cost remained less than the higher airfare amount.

In February 1998, the World Trade Center reimbursed the Office of Technology \$6,695 for Mr. Norton and Ms. Leonard's travel expenses.

- On July 27 - 30, 1997, Jane Leonard traveled to Athens, Georgia for a conference. The Office of Technology paid for her airfare totaling \$738. The airline ticket included personal travel after the conference. Ms. Leonard left Georgia on July 31, 1997, and traveled to Florida before returning to Minnesota on August 3, 1997. The office prepared an authorization for an out-of-state travel request form; however, the documentation did not address the personal portion of the trip. Ms. Leonard did not seek reimbursement for any additional travel expenses incurred while in Florida. Following our inquiries, Ms. Leonard said it was her understanding that there was no additional cost associated with the travel to Florida. However, because the office did not document its cost/benefit decisions, we could not determine whether the office incurred higher airfare as a result of the personal travel.

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- In March 1998, the Office of Technology's former deputy director, Scott Brener, traveled to Beijing, China to attend a United Nations sponsored event involving the Secure Electronic Authenticated Link (SEAL) project. The conference was scheduled for March 23, 1998, through March 26, 1998. Mr. Brener traveled to Beijing on March 19, 1998, and returned on March 25, 1998. The former deputy director only attended two days of the four-day conference. Mr. Brener stated that he returned from China early because of legislative session responsibilities. We question whether it was cost beneficial for Mr. Brener to attend the conference, given his other commitments.

The Office of Technology paid a total of \$3,156 in travel expenses related to the trip. On its international trip request, the office had originally estimated that the trip would cost \$1,464. The actual cost difference was a result of higher airfare and hotel charges. For example, the office had estimated total hotel charges of \$440 for four nights. The actual hotel charges totaled \$1,500 for the four nights. Following our inquiries, Mr. Brener told us that the Chinese government made hotel reservations for the conference attendees. However, Mr. Brener never received confirmation of his hotel reservation. The office made alternate hotel arrangements to ensure Mr. Brener had accommodations when he arrived. Mr. Brener stayed at another hotel that was located near the conference site at a substantially higher cost.

These examples provide evidence of poor planning and imprudent decisions regarding employee travel. The office should have appropriate documentation to support its decisions on the cost/benefit of various travel options, including extending the travel time frame or combining business and personal travel.

Recommendations

- *The office should obtain reimbursement of \$445 from the former deputy director for the personal portion of the Australia travel.*
- *The office should ensure the most cost-effective means of travel is taken and that any changes to travel itineraries resulting in additional cost be documented.*
- *The office should ensure that when employees combine business and personal travel, the state only reimburses the employees for expenses incurred that are directly related to the business portion of the trip. The office should document its analysis of expenses to ensure no additional costs are incurred as a result of personal travel.*

5. The Office of Technology did not have a process in place to provide for the appropriate disposition of frequent flyer miles earned on business travel.

The Office of Technology did not have procedures in place to ensure that frequent flyer miles earned by employees traveling on state business were available for Office of Technology use. We saw no evidence that the office attempted to track this mileage or use the mileage earned for state purposes. Any benefits earned by the employees of the Office of Technology while traveling at the state's expense should accrue to the office.

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As part of their work assignments, office employees frequently traveled out-of-state and out of the country, including trips to Thailand and Australia. In several cases, these employees accrued frequent flyer mileage as a result of their trips. Some employees also accrued additional mileage by using a personal credit card to pay for certain business-related expenses. Table 3-1 summarizes the significant mileage earned by office employees during the audit period.

Table 3-1
Frequent Flyer Mileage Earned
Selected Employees – Fiscal Years 1997 and 1998

<u>Employee Name</u>	<u>Mileage Credits Earned</u>
Michael Norton (1) (2)	23,170
Cynthia Jepsen (2)	7,289
John Gunyou	6,460
JoAnne Lawonn (2)	2,600
Michael Brener (2)	1,672
Total	<u>41,191</u>

(1) In May 1998, Mr. Norton requested that Northwest Airlines reduce his frequent flyer account for certain state paid trips he took during his tenure at the Office of Technology. The total shown reflects any remaining mileage he earned on state business while employed by the office.

(2) Employee may have earned additional mileage through the use of a Northwest WorldPerks Visa Credit Card.

Source: Analysis of Northwest Airlines' frequent flyer records for the period from June 1996 through September 1998.

State employees or elected state officials may not receive any personal benefits from state business trips when traveling at the state's expense. The code of ethics for employees in the executive branch, contained in Minn. Stat. Section 43A.38, speaks generally about personal benefits for state employees. Subd. 2 of that section provides, in part, that:

Employees in the executive branch in the course of or in relation to their official duties shall not directly or indirectly receive or agree to receive any payment of expense, compensation, gift, reward, gratuity, favor, service or promise of future employment or other future benefit from any source, except the state for any activity related to the duties of the employee unless otherwise provided by law.

More specifically, Minn. Stat. Section 15.435 requires that:

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

The Northwest Airlines WorldPerks free travel program allows members to accumulate miles for free air travel. Under the program, once a member accumulates 20,000 or 25,000 miles (depending on the travel season), the member is eligible for a free round trip ticket within the continental United States. As shown on Table 3-1, during the audit period, only one Office of Technology employee earned sufficient frequent flyer mileage through business travel to be eligible for free travel awards or benefits. Mr. Norton, the former deputy director, earned 23,170 miles as a result of travel paid by public funds. Mr. Norton earned 18,255 of those miles when traveling to Bangkok, Thailand in May 1997. The University of Minnesota paid for Mr.

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Norton's airline ticket for this trip. Mr. Norton resigned from the Office of Technology on January 20, 1998, and is currently employed by the University of Minnesota. In November 1998, Mr. Norton received approval from the University of Minnesota to attend a conference that was held in France. Mr. Norton used 35,000 frequent flyer miles from his WorldPerks account to obtain free international travel to the conference. As a result, we think that Mr. Norton's frequent flyer miles earned on state business were used appropriately for business-related travel.

Recommendation

- *The Office of Technology should take necessary actions to ensure that any frequent flyer benefits accrued by employees on business trips are used for state business.*

6. The Office of Technology reimbursed employees incorrectly for mileage and meals.

Office of Technology employees consistently submitted employee expense reports that claimed incorrect mileage amounts. In some cases, the office also incorrectly reimbursed employees for meals.

Employees claimed actual odometer mileage readings from city to city rather than standard trip mileage from the state's official mileage book. In most instances, employees received larger reimbursement amounts for mileage than they would have using the mileage distances in the official state mileage book. The state's operating policy and procedure for employee travel expenses includes the following:

Trip miles are miles traveled from city to city. Mileage from the official state map or the official state mileage book published by the Department of Transportation or Public Service must be used. Odometer readings are not required on the Employee Expense Report but may be used where mileage cannot be determined from the state map or mileage book.

We also found two instances where the office reimbursed employees for mileage at the higher state rate without obtaining proof that no state car was available for the trip. Since travel in a state owned vehicle is generally more cost effective, state travel policies require state employees to contact the Department of Administration's Travel Management Division to determine whether a state vehicle is available for trips of 75 miles or longer. When a state vehicle is not available, the Travel Management Division issues the employee a control number. The employee must include the control number on the expense report in order to be reimbursed for personal car mileage at the higher rate of \$.27 per mile. If an employee chooses to use a personal car on trips exceeding 75 miles without contacting Travel Management, the employee is only eligible for mileage reimbursement at the lower rate of \$.21 per mile. For the three instances identified, the cost difference totaled \$26.

Finally, in some cases, the office reimbursed employees for unallowable meals. The office reimbursed one employee for two breakfasts on trips that did not begin until after 6:00 a.m. The office also reimbursed the same employee for dinner, even though the trip ended at 6:30 p.m. The state does not allow agencies to reimburse employees for breakfast unless the employee was required to leave home before 6:00 a.m. or for dinner unless the employee was in travel status until after 7:00 p.m. In one case, an employee received the meal reimbursement at the rate

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reserved for high cost metropolitan areas, even though the destination was not designated as a high cost area. The overpayments as a result of these errors totaled \$38. Finally, in some cases, the office reimbursed employees for meals without documenting the employees' trip times. State travel policies require employees to document their departure and arrival times on the employee expense report to confirm that the employee was entitled to meal reimbursement.

Recommendations

- *The office should obtain reimbursement for overpayments in mileage and meal reimbursements.*
- *The office should reimburse trip mileage based on mileage from the official state mileage book.*
- *The office should follow the Department of Administration's control number policy and use the proper rate for mileage reimbursements.*
- *The office should follow applicable state policy when reimbursing employees for meals.*

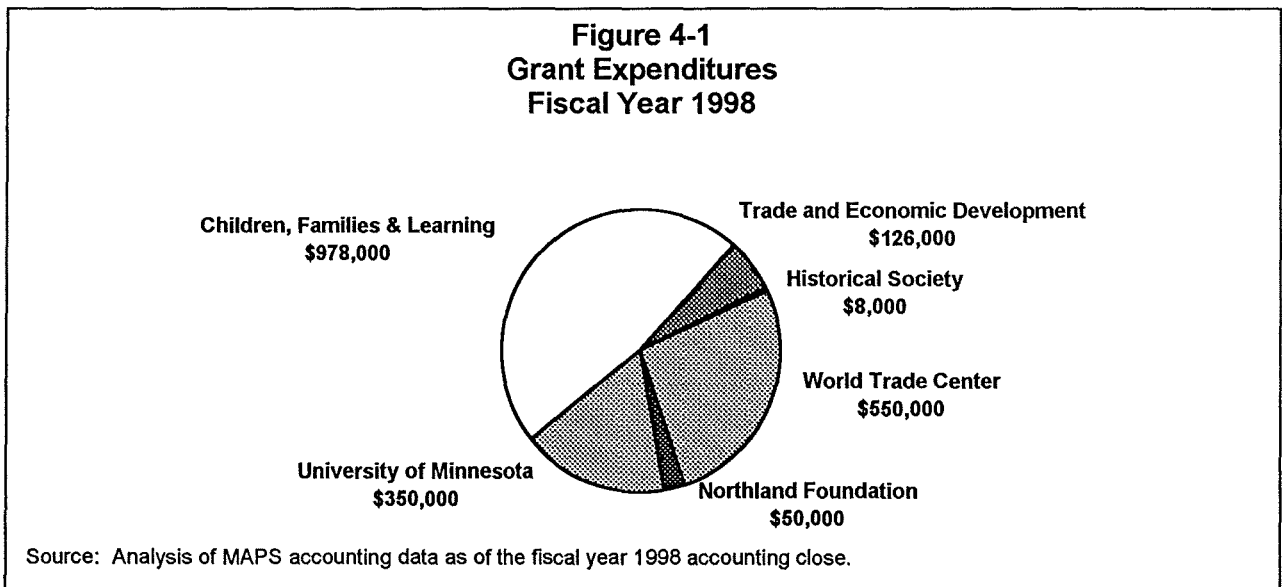
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Chapter 4. Grants

Chapter Conclusions

The Office of Technology designed and implemented controls to provide reasonable assurance that its grant expenditures were accurately reported in the accounting records. However, the office did not maintain sufficient control over its grants to ensure that the grant funds were being used in compliance with applicable legal provisions. We noted that one agreement did not adequately clarify the responsibilities of each party nor provide clear expectations of how the grant money was to be used. In addition, we found no documentation that the office had properly monitored some of its grants.

The Office of Technology has the authority to make grants as part of its legislative mandate to provide leadership and direction for information and communications technology policy in Minnesota. During fiscal year 1998, the Office of Technology disbursed grants totaling \$2,062,000 in pursuit of this goal. Figure 4-1 shows the office's grant disbursements during the audit period.



Office of Technology

Table 4-1 provides a brief description of each of the grant programs administered by the Office of Technology in fiscal year 1998.

Table 4-1
Office of Technology Grant Programs
Fiscal Year 1998

Program	Description
Trade Point/SEAL	<p>The Trade Point program is a United Nations sponsored program designed to assist small businesses in international marketing through electronic commerce. In conjunction with Trade Point, the University of Minnesota has been developing Secure Electronic Authentication Link (SEAL). SEAL serves as a secure electronic server site to provide security over electronic international commerce.</p> <p>The office received \$1,300,000 in appropriations for the Trade Point and Seal programs in fiscal years 1998 and 1999. As of June 30, 1998, the office had disbursed \$350,000 to the University of Minnesota and \$550,000 to the World Trade Center, pursuant to a transfer agreement. The World Trade Center subsequently transferred \$300,000 of its grant to the University of Minnesota.</p>
Regional Management Information Centers	<p>The Legislature appropriated \$978,000 to the office for grants to regional management information centers. These centers, created by two or more school districts, are to provide computer services to their affiliated school districts. The office entered into an interagency agreement with the Department of Children, Families & Learning to administer the program. Pursuant to the agreement, the \$978,000 was transferred to the department.</p>
Electronic Access to Business Licenses	<p>The office received a \$500,000 appropriation for the development of an electronic system allowing the public access to business license information. The office entered into an interagency agreement with the Department of Trade and Economic Development to develop the system. The office made a first payment of \$126,000 on the project in May 1998.</p>
The 21st Century Arrowhead Economic Development Initiative	<p>Minn. Stat. Section 16E.13 gives the office the responsibility to develop community technology resources and authorizes grants to achieve this objective. On July 8, 1998, the office made its first grant payment under this provision. The Northland Foundation, a joint venture of the University of Minnesota-Duluth, Minnesota Technology, Inc. and Minnesota Power received a grant of \$50,000.</p>
North Star Electronic Government Services	<p>The office received an appropriation of \$935,000 for the North Star online information service, created pursuant to Minn. Stat. Section 16E.07. The office was to establish North Star as the state's comprehensive government online information service and develop a secure transaction system to support delivery of government services electronically. The office is using the Minnesota Historical Society's online book sales as a pilot project for this program.</p>

Audit Objective and Methodology

The primary objective of our review of Office of Technology grants was to answer the following question:

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- Did the Office of Technology design and implement internal controls to provide reasonable assurance that grant disbursements were accurately reported in the accounting records and in compliance with applicable legal provisions?

To address this objective, we made inquiries of Office of Technology staff to gain an understanding of the accounting processes for grant disbursements. We also gained an understanding of the purpose of each grant agreement. We reviewed all grant agreements, and verified that there was legal authority for the amounts disbursed. We also verified that disbursements were properly entered into the state's accounting system. In addition, we reviewed supporting documentation to determine the extent to which the Office of Technology monitored the grantees' compliance with the terms of the agreements.

Conclusions

The Office of Technology designed and implemented controls to provide reasonable assurance that grant expenditures were accurately reported in the accounting records. However, the office did not maintain sufficient control over its grants to ensure that some grant funds were being used in compliance with applicable legal provisions. We noted that one agreement did not adequately clarify the responsibilities of each party nor provide clear expectations of how the grant money was to be used. In addition, we found no documentation that the office had properly monitored some of its grants.

7. The Office of Technology did not properly administer its grant agreements.

The office's interagency agreement with the University of Minnesota and the World Trade Center for the Trade Point program did not adequately clarify the responsibilities of each party nor provide clear expectations of how the grant money was to be used. The office also failed to document any evidence of oversight and monitoring of grant funding for either the Trade Point or the Regional Management Information Centers agreements. The office did not maintain documentation to support grant spending and progress on these grant projects.

Trade Point/Seal

As part of the Trade Point agreement, the University of Minnesota and the World Trade Center agreed to develop and present a proposed budget for their respective projects by November 1, 1997. They were also required to provide quarterly statements of the disbursement of funds from the project accounts. However, we found no evidence that the Office of Technology ever received either a proposed budget or the required quarterly expenditure statements. This presented an opportunity for the grantees to pursue activities and options that did not necessarily correspond with the intentions of the grantor or serve in the best interest of the project.

For example, the University of Minnesota purchased \$15,762 of furniture using Trade Point funding. The current office management has questioned the reasonableness of that expenditure, as well as the amount of travel expenses incurred by the university for the SEAL program. As a result, they have requested that any unused funds be returned to the Office of Technology and that the current agreement be terminated and a new agreement written. In addition, in a letter to the Department of Finance dated June 23, 1998, Governor Arne Carlson directed the Finance

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commissioner to “place a cease order” on the transfer of the remaining \$400,000 appropriation to the Trade Point program for fiscal year 1999.

The Trade Point and SEAL programs are currently under investigation by the Federal Bureau of Investigation and the United Nations. According to a recent newspaper article, investigators are examining financial and legal aspects of the program, including the potential illegal exportation of sensitive encryption technology through the program.

Regional Management Information Centers

In the Laws of 1997, First Special Session, Chapter 4, Article 9, Subd. 13, the Legislature appropriated \$978,000 to the Office of Technology for grants to regional management information centers. The appropriation was somewhat unusual, because Minn. Stat. Section 121.935, which authorized the creation of regional management information centers, did not address the Office of Technology’s role in these centers. Rather, it required the Department of Children, Families & Learning (CFL) to provide assistance to the centers.

The Office of Technology believed that the Legislature’s intent actually was to have the Department of Children, Families, and Learning receive the appropriation. As a result, Office of Technology staff felt that an interagency agreement should be created to transfer the appropriation back to Children, Families & Learning. The Office of Technology entered into an interagency agreement with Children, Families & Learning and made the \$978,000 transfer.

One of the requirements of the interagency agreement with the Department of Children, Families & Learning was that the office would “review and approve all Children, Families & Learning contracts and/or grant agreements associated with this Interagency Agreement.” The individual involved with this project explained that he worked closely with Children, Families & Learning and knew where the money was going. However, we saw no evidence that a formal review and approval process ever took place.

The Office of Technology should establish a monitoring process to ensure that grant funding has been used appropriately, the grantee has met the terms of the agreement and progress is being made consistent with the agreement and authorizing legislation.

Recommendations

- *The office should write clear and detailed grant agreements, specifically assigning the responsibilities of each party and identifying how the grant funds are to be used.*
- *The office should properly monitor all grant agreements to ensure that grantees are spending the funds consistent with the terms of the agreement and the authorizing legislation.*

Chapter 5. Payroll

Chapter Conclusions

We found insufficient documentation for many of the fiscal year 1997 Office of Technology mobility assignments. As a result, it was often difficult to determine when the employees' job assignments and responsibilities changed. In addition, there were no job descriptions outlining the employees' new responsibilities or the expectations of their positions at the Office of Technology. In all cases, the officials responsible for paying employees on mobility assignment did not exercise any control over or oversight of the employees once they went to the Office of Technology.

We found a lack of separation of duties over payroll. In addition, during part of the audit period there were numerous payroll coding errors.

The Office of Technology's payroll costs during fiscal year 1997 were all paid through mobility assignments from other agencies. As shown in Table 1-1, we estimated total fiscal year 1997 payroll costs for the office to be \$648,827. Beginning in fiscal year 1998, the office funded its payroll costs through an operating appropriation. Payroll costs for fiscal year 1998 totaled \$1,755,371.

The Office of Technology did not have a designated personnel officer within the agency. During fiscal year 1997, the Department of Administration provided human resource support to the Office of Technology. Beginning on July 1, 1997, the Department of Employee Relations provided that service to the office. In 1998, the office contracted with the Department of Labor and Industry to provide human resource support. The Department of Labor and Industry performs all personnel work for the office, including determining salaries and classifications, and entering personnel information onto SEMA4, the state's personnel/payroll system.

Audit Objectives and Methodology

The primary objectives of our review were to answer the following questions:

- How much did agencies spend to fund the Office of Technology payroll in fiscal year 1997 and were the mobility assignments handled appropriately?
- Did the office design and implement internal controls to provide reasonable assurance that payroll expenditures were accurately recorded in the accounting records and complied with applicable legal provisions and management authorizations?
- Did the office accurately report its fiscal year 1998 payroll expenditures in the accounting records in all material respects?

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For the mobility assignments, we researched background information on the Office of Technology to determine who was assigned to work for the office during fiscal year 1997. We also contacted state agencies that had provided staff for the Office of Technology to determine the funding arrangements and dates of service. We reviewed the personnel files of mobility employees to determine total pay and length of time spent on office activities.

For the fiscal year 1998 payroll, we interviewed office employees to gain an understanding of the controls over payroll. We performed analytical procedures on payroll data and reviewed source documents. We also reviewed severance payments made to employees during the audit period.

Fiscal Year 1997 Personnel Costs

Four key staff for the new Office of Technology came from the Department of Administration. These employees had been hired by the Information Policy Office to support the Government Information Access Council (GIAC). (Chapter 2 provides additional information on the office's fiscal year 1997 funding.)

The office had additional staff members on mobility assignments from other state agencies. The Department of Children, Families & Learning funded the office executive director position for fiscal year 1997. As shown in Table 5-1, numerous other state agencies provided staff to the office during its first year. In all cases, the sponsoring state agencies continued to pay for the salaries of the employees assigned to the Office of Technology.

Table 5-1
Mobility Assignment Funding
Fiscal Year 1997

<u>Sponsoring Agency</u>	<u>No. of Employees</u>	<u>Estimated Salary Costs (1)</u>
Administration – GIAC (2)	6	\$147,000
Children, Families & Learning	2	168,000
Commerce	1	54,000
Economic Security	1	52,000
Finance	1	26,000
Human Services	1	77,000
Minnesota Planning	1	17,000
Transportation	1	53,000
Total Mobility Payroll	<u>14</u>	<u>\$594,000</u>

(1) Estimated salary costs were based on full-time start date at the Office of Technology. We determined start dates based on documentation within the employee's personnel file or, in some cases, discussions with the employees or agency personnel directors.

(2) Totals include two GIAC interns.

Sources: Employee personnel records and analysis of state payroll system (SEMA4) records for fiscal year 1997.

Executive Director Salary

On June 18, 1996, the Governor appointed John Gunyou to a temporary position within the Governor's Office at a salary of \$43.59 per hour to establish the Office of Technology

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Coordination. On July 15, 1996, the commissioner of Children, Families & Learning (CFL) permanently appointed John Gunyou to the position of Director of Office of Technology Coordination at the same salary. This annual salary of \$91,000 exceeded the salary of the commissioner of Children, Families & Learning, whose salary was limited by Minn. Stat. Section 15A.081 to \$78,500. Minn. Stat. Section 43A.17, Subd. 1 states:

The salary . . . of the head of a state agency in the executive branch is the upper limit on the salaries of individual employees in the agency.

In order to pay the executive director at the level determined by the governor, the CFL commissioner requested an unusual employment exemption under the provisions of Minn. Stat. Section 43A.17, Subd 3, which states:

Upon the request of the appointing authority, and when the commissioner [of the Department of Employee Relations] determines that changes in employment situations create difficulties in attracting or retaining employees, the commissioner may approve an unusual employment situation increase to advance an employee within the compensation plan. . . . If the commissioner determines that the position requires special expertise necessitating a higher salary to attract or retain qualified persons, the commissioner may grant an exemption not to exceed 120 percent of the base salary of the head of the agency.

On July 15, 1996, the commissioner of the Department of Employee Relations approved the CFL commissioner's request and authorized John Gunyou's salary of \$91,000 per year. Mr. Gunyou maintained that salary until his resignation effective January 1, 1998.

Beginning in fiscal year 1998, pursuant to Minn. Stat. Section 16E.02, the salary of the executive director is limited to 85 percent of the governor's salary. The executive director's salary as of June 30, 1998, was \$97,300 per year.

Conclusions

We found insufficient documentation for many of the fiscal year 1997 Office of Technology mobility assignments. Because the sponsoring agencies continued to pay the employees on mobility to the Office of Technology, they were not required to submit any documentation to the Department of Employee Relations or make any changes to the state's personnel/payroll system. In 9 of the 14 mobility assignments we reviewed, the sponsoring agency did not have a written agreement with the Office of Technology outlining the personnel arrangements. Some of the sponsoring personnel directors told us that they were told that it was not possible to execute an interagency agreement with the Office of Technology, especially since the office did not have statutory agency status at that time. Other agencies did have partial or complete interagency agreements, either with the Office of Technology or with the Department of Children, Families & Learning.

As a result, it was often difficult to determine when the employees' job assignments and responsibilities changed. In some cases, the only way of determining when the employees assumed their new job assignments at the Office of Technology was to ask the employees themselves. In addition, there were no job descriptions outlining the employees' new

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responsibilities or the expectations of their new positions. In all cases, the officials responsible for paying these employees did not exercise any control over or oversight of the employees once they went to the Office of Technology. As stated in the Chapter 2 conclusion, we think such funding arrangements can be awkward and generally should be avoided.

We identified a concern about the separation of duties over payroll. We also noted certain problems with the way the office structured its deputy director position during fiscal year 1998.

8. The office had an inadequate separation of duties over its payroll functions.

The office gave full human resource access within the state's personnel/payroll system (SEMA4) to the payroll clerk. Through this access, the employee was authorized to perform all high level personnel functions, including entering salary increases and establishing new employees, as well as changing her own personnel record within SEMA4. These personnel functions were incompatible with the clerk's payroll duties, because they allowed one person to have complete control over all of the office's human resource functions. In addition, since the office currently contracts with the Department of Labor and Industry for personnel support, its employees do not need full human resource access.

Also, during part of the audit period, there was no independent review of timesheet information entered onto the state's payroll system. This resulted in numerous payroll coding errors, such as incorrect vacation and sick leave accruals, as well as incorrect retroactive pay adjustments. Since April 1998, an independent review has been performed and the office has corrected many of the errors.

Recommendation

- *The office should eliminate the payroll clerk's access to high level personnel functions within SEMA4.*

9. The office did not properly structure its deputy director position.

During fiscal year 1998, the Office of Technology employed two deputy directors, although its governing legislation authorizes only one deputy position. The office's first deputy director, Michael Norton, resigned effective January 20, 1998. The current executive director appointed two new deputy directors in January 1998, Richard Auld and Scott Brener. According to the executive director, Mr. Auld was hired as the deputy responsible for internal issues and Mr. Brener was responsible for external relations.

Minn. Stat. Section 16E.02 states "the executive director may employ **a deputy director** (emphasis added)." We do not believe that the statute allows the office to employ two deputy directors at the same time. In addition, the office did not create two separate position descriptions for these employees. Instead, they both used Mr. Norton's position description. Because of this, each employee's job responsibilities were unclear.

Recommendation

- *The office should employ only one deputy director and should complete an accurate and current position description for that employee.*

Chapter 6. Other Administrative Expenditures

Chapter Conclusions

The Office of Technology needs to make significant improvements to its purchasing processes. We found a lack of separation of duties over purchasing. The office did not comply with state policies over bidding and special expense purchases. Finally, the office had not entered its fixed asset purchases on the state fixed asset inventory system.

The Office of Technology's significant nonpayroll administrative expenditures consisted of rent, supplies, and equipment. As shown in Table 1-1, the office spent \$230,731 on rent and \$310,447 on supplies and equipment during the audit period. It also spent \$497,763 on other administrative expenditures. We reviewed travel expenditures separately in Chapter 3 of this report.

Audit Objectives and Methodology

The primary objectives of our review of administrative expenditures were to answer the following questions:

- Did the Office of Technology design and implement internal controls to provide reasonable assurance that administrative expenditures were accurately recorded in the accounting records and in compliance with applicable legal provisions and management authorizations?
- Did the office comply with the applicable state policies governing the purchase of goods and services?
- Were administrative expenditure transactions recorded properly in the state's accounting system in all material respects?

To answer these questions, we interviewed office employees to gain an understanding of the controls over administrative expenditures. We tested administrative expenditure transactions to determine if the transactions were properly recorded and whether they complied with applicable policies. We also analyzed transactions to determine the reasonableness of the purchases. Finally, we reviewed the office's process for recording fixed asset purchases.

Conclusions

The Office of Technology needs to make significant improvements to its purchasing processes. We found a lack of separation of duties over purchasing. The office did not comply with state

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policies over bidding and special expense purchases. Finally, the office had not entered its fixed asset purchases on the state fixed asset inventory system.

10. The office did not adequately separate its purchasing and disbursing functions.

Four office employees had access to all critical procurement and disbursement functions within the state's accounting system (MAPS). This access allowed the employees to have complete control over the office's non-payroll administrative expenditures, including setting up purchase orders and processing payments. The office gave this access to all four employees, even though some of the employees did not require it to perform their job duties. In addition, there was not an independent review of expenditures recorded in MAPS. Rather, the employee primarily responsible for entering MAPS payments also was responsible for reviewing MAPS expenditure reports.

To prevent and detect errors or irregularities, the office should separate duties relating to purchasing and payment processing. In addition, there should be an independent review of disbursements recorded on the accounting system.

Recommendations

- *The office should properly separate incompatible duties relating to its purchasing and disbursing functions.*
- *The office should review its MAPS security clearances and ensure that access is appropriate for each employee's job duties.*

11. The office did not always comply with state purchasing policies and procedures.

The office did not always comply with the state's policies for bidding. In addition, the office allowed employees to make significant purchases and obtain reimbursement for those purchases on employee expense claims.

In 4 of the 20 supply and equipment purchases we tested, the office did not follow proper bidding procedures. The office made two purchases of furniture without soliciting bids. In addition, we saw no evidence that the office considered purchasing the furniture through state contract, even though the exact brand of some of the furniture was available. The purchases, made in August 1996 and August 1997 for \$23,754 and \$22,893, respectively, included bookcases, desks, and chairs for the new office. Minn. Stat. Section 16B.07, Subd. 3, which was in effect at that time, required sealed bids be solicited by public notice for expenditures estimated to exceed \$15,000.

In addition, the office allowed employees to purchase supplies and small equipment items directly and obtain reimbursement for those purchases through their employee expense reports. For example, the former executive director purchased over \$1,400 in computer equipment, including a \$1,000 personal digital assistant package from a local store and was reimbursed through an expense claim. The former deputy director also purchased a personal digital assistant for \$421 and received reimbursement without any evidence of price quotes. By allowing

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employees to purchase items outright and be reimbursed, it was difficult for the office to determine whether it received the best price for these items.

Recommendations

- *The office should establish procedures to ensure that competitive price quotes are obtained when making purchasing decisions.*
- *The office should establish an internal policy limiting the dollar amount of purchases allowed to be reimbursed through employee expense reports.*

12. The office did not comply with the state's special expense policy and made certain questionable expenditures.

The office did not have an approved special expense plan on file with the Department of Employee Relations (DOER). According to DOER Administrative Procedure 4.4, "special expenses are expenses incurred in connection with official functions of an agency . . . which are not reimbursable through the regular expense regulations." According to Administrative Procedure 4.4, the office must either have an approved special expense plan on file, citing the types of special expenses the office intends to incur, or must have individual expenses approved by DOER as they occur.

We found several instances where the office incurred and paid for expenses that would be classified as special expenses under the DOER procedure. The office made frequent purchases of food or meals for its employees, including the following:

- Meals for employees working at the 1997 state fair, totaling \$175.
- Pizza for employees on September 9, 1997, totaling \$113.
- Breakfast, lunch, and snacks for a training session for employees on November 17 – 19, 1997, totaling \$354.
- Breakfast and lunch at an employee team building session on November 21, 1997, totaling \$273.
- Lunches for state chief information officers (including two office employees) on June 8, 1998, totaling \$142.
- Lunches and refreshments for employees at a master plan meeting on June 15, 1998, totaling \$178.

The Office of Technology did not have an approved special expense plan on file at DOER. Although the office completed requests for approval to incur special expenses for some of these food purchases, it did not have the requests approved by DOER as required.

Finally, in November 1997, the former executive director donated \$270 to the Twin Cities Opera Guild. The contribution was for the Twin Cities Opera Guild's 1997 Candlelight Dinner, valued

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at \$120, with the remainder an allowable tax deduction of \$150. The office reimbursed the former executive director for the \$120 dinner. Mr. Gunyou stated this dinner presented an opportunity to meet individuals in the Twin Cities cultural community, a group that was potentially to benefit from Office of Technology projects. However, we question the need for the office to pay for the ticket, as we do not think it is a necessary business expense. The office identified the expenditure as “department head expense account.” This account is established by Minn. Stat. Section 15A.081 to allow certain state agency heads to pay expenses necessary to their assigned duties, including meals and related expenses. However, the Office of Technology is not one of the agencies authorized to have a department head expense account.

Recommendations

- *The office should develop a special expense plan in accordance with Administrative Procedure 4.4 and submit it to the Department of Employee Relations for approval.*
- *The office should review the reasonableness of its expenses and ensure that its purchases meet a public purpose and are cost effective.*

13. The Office of Technology did not properly record its fixed assets.

State policy requires all state agencies to record fixed asset purchases over \$10,000 on the state’s fixed asset inventory system (FANS). Although the office had purchased computer equipment that exceeded the \$10,000 threshold, the office had not assigned fixed asset numbers to the equipment nor recorded it on FANS.

In addition, the office miscoded equipment purchases as either supplies or as equipment rental on MAPS. The coding errors arose when employees first entered purchase orders on the state’s computerized purchasing system. Since the employees did not specify which object code to assign to the purchase orders, the computer system automatically assigned the purchase a default object code. In order to have accurate fixed asset records, the office must properly code expenditure transactions in the accounting system.

Recommendations

- *The office should record all fixed asset purchases over \$10,000 on FANS as required.*
- *The office should ensure that all expenditures are properly recorded on the state’s accounting system.*



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JoAnn S. Hanson
Executive Director

December 21, 1998

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

Dear Mr. Nobles:

The December 16, 1998 revised draft audit report of the Office of Technology prepared by the Office of the Legislative Auditor, highlights a number of matters involving spending decisions, financial controls, separation of duties, and expenditure propriety. For the most part, the irregularities cited by the audit report occurred during the first year and one half of the agency's history during the tenure of John Gunyou.

Throughout the audit, the Office developed and implemented required procedures and controls as identified by the audit staff. Indeed, the response to several of the report recommendations is a policy or control that has already been adopted and is an integral component of the agency's current practices.

The following lists the audit report's findings and the Office of Technology responses to the audit recommendations.

Recommendation: The Office of Technology should ensure that staff members are properly trained in state policies and procedures and that office disbursements comply with applicable laws and policies.

Response: State policies and procedures regarding travel decisions, employee reimbursement and agency purchasing have been integrated into Office of Technology practices. Staff members involved in purchasing have attended the state's purchasing class.

Recommendation: The Office of Technology should realign its accounting responsibilities to improve separation of duties.

Response: Accounting responsibilities and duties have been realigned. Please see Attachment "A".

Recommendation: The Office of Technology should limit the computer system access given employees to the minimum needed to perform their job functions.

Response: Computer access to MAPS and SEMA4 has been restricted to those employees whose job functions require such access. Please see Attachment "A".

Recommendation: The office should improve controls over the processing and monitoring of employee travel expense reimbursements. The office should require employees to submit actual receipts as support for expenses incurred while traveling.

Response: The Office of Technology has developed and clarified travel policies and special expense reimbursement practices. DOER Commissioner Karen Carpenter has approved the policy. A copy is appended as Attachment "B". Further, OT has designated a travel coordinator through whom all approved travel arrangements must be made.

Recommendation: The office should obtain reimbursement of the \$195 conference registration fee from NASIRE.

Response: The office will attempt to collect the \$195 registration fee from NASIRE.

Recommendation: The office should obtain reimbursement of \$445 from the former deputy director for the personal portion of the Australia travel.

Response: The office will work with its legal counsel to obtain reimbursement of \$445 from Michael Norton for his personal travel.

Recommendation: The office should ensure the most cost-effective means of travel is taken and that any changes to travel itineraries resulting in additional cost be documented.

Response: The Office of Technology has adopted travel policies to produce more cost-effective travel. Notwithstanding the time constraints posed by the legislative session and other office requirements, it was determined that a representative from the State of Minnesota should attend the March 1998 Secure Electronic Authenticated Link/Trade Point conference in China. This was particularly true because of program concerns and lack of project documentation. Please see Attachment "B".

Recommendation: The office should ensure that when employees combine business and personal travel, the state only reimburses the employees for expenses incurred that are directly related to the business portion of the trip. The office should document its analysis of expenses to ensure no additional costs are incurred as a result of personal travel.

Response: Please see Attachment "B".

Recommendation: The Office of Technology should take necessary actions to ensure that any frequent flyer benefits accrued by employees on business trips are used for state business.

Response: Please see Attachment "B".

Recommendation: The office should obtain reimbursement for overpayments in mileage and meal reimbursements.

Recommendation: The office should reimburse trip mileage based on mileage from the official state mileage book.

Recommendation: The office should follow the Department of Administration's control number policy and use the proper rate for mileage reimbursements.

Recommendation: The office should follow applicable state policy when reimbursing employees for meals.

Response: The office has implemented travel authorization and review policies that include utilization of standard state mileage figures and meal reimbursements. The office will ensure that appropriate mileage and meal reimbursements are made. The value of recovering the nominal overpayment of the mileage and meal reimbursements will be weighed against its effect upon staff morale and performance, and the cost associated with its recovery.

Recommendation: The office should write clear and detailed grant agreements, specifically assigning the responsibilities of each party and identifying how the grant funds are to be used.

Recommendation: The office should properly monitor all grant agreements to ensure that grantees are spending the funds consistent with the terms of the agreement and the authorizing legislation.

Response: The office has been working with its legal counsel to ensure that grant agreements are written to clearly define roles and responsibilities of the parties involved. The office will monitor its grant agreements more carefully to ensure that the funds are spent consistent with the terms of the agreement and the intent of the authorizing legislation.

Recommendation: The office should eliminate the payroll clerk's access to high-level personnel functions within SEMA 4.

Response: The payroll clerk access to high level functions within SEMA 4 has been terminated.

Recommendation: The office should employ only one deputy director and should complete any accurate and current position description for that employee.

Response: The office employed two deputy directors after consulting with DOER and receiving notification that to do so was not precluded by the office's enabling legislation. The office currently employs one deputy. A position description has been prepared and is on file in the department.

Recommendation: The office should properly separate incompatible duties relating to its purchasing and disbursing functions.

Response: These duties have been separated. Please see confirming memoranda in Attachment "A".

Recommendation: The office should review its MAPS security clearances and ensure that access is appropriate for each employee's job duties.

Response: Security clearances have been reviewed and revised to be consistent with employee job duties.

Recommendation: The office should establish procedures to ensure that competitive price quotes are obtained when making purchasing decisions.

Response: Purchasing procedures have been revised to be consistent with State of Minnesota requirements.

Recommendation: The office should establish an internal policy limiting the dollar amount of purchases allowed to be reimbursed through employee expense reports.

Response: Purchasing policies have been developed and adopted.

Recommendation: The office should develop a special expense plan in accordance with Administrative Procedure 4.4 and submit it to the Department of Employee Relations for approval.

Mr. James R. Nobles
Office of Technology audit response
December 21, 1998
Page 5 of 5

Response: A special expense plan has been developed and approved by Employee Relations. Please see Attachment "B".

Recommendation: The office should review the reasonableness of its expenses and ensure that its purchases meet a public purpose and are cost effective.

Response: The Office of Technology expenses have been reviewed and employees with purchasing responsibility have completed course in state purchasing procedures.

Recommendation: The office should record all fixed asset purchases over \$10,000 on FANS as required.

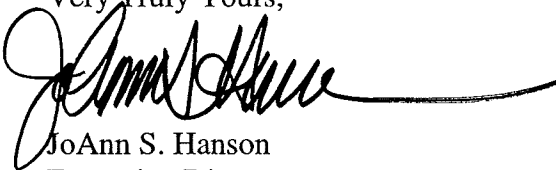
Response: Fixed assets with purchase prices of more than \$10,000 have been identified and will be recorded as required by state policy. The Office's Business Manager will record the fixed assets.

Recommendation: The office should ensure that all expenditures are properly recorded on the state's accounting system.

Response: The office has reviewed its expenditures to ensure that they are properly recorded.

I appreciate the opportunity to respond to the draft audit report findings.

Very Truly Yours,



JoAnn S. Hanson
Executive Director

Attachments

DOER-ADMINISTRATION TEL: 612-282-5858 Aug 27 '98 14:26 No. 003 P. 02

REPORT ID: JHR5164

ATTACHMF A

STATE OF MINNESOTA
OPERATOR SECURITY PROFILE AND ACCESS
AS OF: 1998-08-21

LOGIN	NAME	EMPLID	PROFILE	ACCESS	AGENCY/DEPTID	DESCRIPTION	RESTRICTED DEPT ID
	Beedle, Julie A		A	G27		Office of Technology	
	Bourgoin, Janet		A	G27		Office of Technology	
	Froelker, Julie A		A	G27		Office of Technology	
	Yates, James M		A	G27		Office of Technology	

Revised profile on Jan Bourgoin
to no longer allow update
of her own HR data effective
8-27-98

Benay Thru
State SEMA 4 Security
Administrator

8/10/98



First National Bank Building
332 Minnesota Street
Suite E1100
St. Paul, MN 55101-1322
612.215.3878

MEMO

TO: Julie Beedle
Jan Bourgoin
~~Lizan Hirtreiter~~
Wanda Toepper

FR: Dick Auld

A handwritten signature in black ink, appearing to be "Dick Auld", written over the printed name.

SUBJECT: SEPARATION OF FINANCIAL DUTIES

Concern has been expressed by the auditors regarding sufficient separation of staff duties in handling financial transactions, and creating sufficient documentation.

To address these concerns, the following protocol will be put in place immediately:

1. In addition to other approvals, Jan must authorize all purchases.
2. Julie will receive all purchased merchandise, and check to make sure that the invoice and packing slips match the purchase orders. Wanda will serve as backup in this function in Julie's absence.
3. All payments will be made by Lizan only after getting a receiving report from Julie or Wanda, which states that merchandise, invoice, and packing slip conform to the original purchase order.
4. MAPS access will be changed to conform to steps 1-3 above.



**Minnesota
Office of
Technology**

First National Bank Building
332 Minnesota Street
Suite E1100
St. Paul, MN 55101-1277
612.215.3131

DECEMBER 7, 1998

MEMO

TO: Julie Beedle
Bruce Lemke
Jodi Odegard
Wanda Toepper

FR: DICK AULD

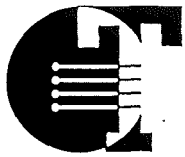
A handwritten signature in black ink, appearing to be 'D. Auld', written over the 'FR:' line.

SUBJECT: REVISION OF SEPARATION OF FINANCIAL DUTIES.

The attached memo was sent out August 10, 1998 to separate the handling of financial transactions in conformity with advice from the auditors.

Because of the departure of Jan and Lizan, the reassignment of duties is as follows:

1. Julie now authorizes all purchases
2. Jodi receives delivered merchandise and checks invoices and packing slips against purchase orders. Wanda continues to serve as backup.
3. Bruce will serve in the same capacity as Lizan did, and make payments after receiving payment reports from Jodi or Wanda.
4. MAPS access will be changed to reflect 1-3 above.



**Minnesota
Office of
Technology**

First National Bank Building
332 Minnesota Street
Suite E1100
St. Paul, MN 55101-1322
612.215.3878

December 7, 1998

To: DOER SEMA 4
From: JoAnn Hanson
Executive Director
Subject: OT SEMA 4 Security Administrator

I am hereby designating Jim Yates as the SEMA 4 Security Administrator for the Office of Technology. This includes SEMA 4 tables and other items relating to this system. Please take the necessary actions to make this change.

Thank you.

Minnesota
Department of
Employee
Relations

ATTACHMENT B

Leadership and partnership in
human resource management

Memo

DATE: December 8, 1998

TO: Joann S. Hanson
Executive Director
Office of Technology

FROM: Karen L. Carpenter
Commissioner



RE: Special Expense Plan

I have approved the Special Expense Plan for the Office of Technology submitted December 8, 1998. Future changes to the plan can be submitted as amendments to the original plan.

a-memo6.dot

Office of Technology Special Expense Plan

12-9-98

Refreshments

Refreshments will be considered for approval as appropriate department expenditures according to the following criteria:

1. Full cost of a meal when it is a part of the structured agenda of a work related conference, workshop, seminar or meeting which the employee has been authorized to attend. The agenda and special expense form must be reviewed by the Deputy Director and approved by the Executive Director at least ten days prior to the event.
2. Refreshments, meals and other conference costs for OT sponsored events where the majority of the participants are not state employees. The special expense form must be reviewed by the Deputy Director and approved by the Executive Director at least ten days prior to the event.
3. Refreshments and/or meals for work related meetings that consist primarily of state employees when the refreshments and/or meals are an integral part of the event and are necessary to sustain the flow of the meeting and to retain the captive audience, and if the meeting is one of the following:
 - A meeting with participants from many geographic locations where the majority of the participants are in approved travel status;
 - A department planning or organizational meeting for OT or other state employees, as required; and
 - A structured training session, available to all OT staff and conducted by persons outside the agency, provided it has been approved by the OT training or staff development officer.

With the exception of structured training sessions, the meetings described shall be held no more frequently than once each quarter. All meetings shall be scheduled to minimize inclusion of meals. The agenda and special expense form must be reviewed by the Deputy Director and approved by the Executive Director at least ten days prior to the event.

4. Refreshments and/or meals may be provided during official meetings of statutory boards, councils, task forces, advisory committee and commissions; and during official commissions for which expenses are authorized by statute or as a condition of a federal grant or contract. Official meetings include meetings of sub-committees provided that such meetings are authorized by the full board, council, task force, advisory committee or commission. All meetings shall be scheduled to minimize inclusion of meals. The agenda and special expense form must be reviewed by the Deputy Director and approved by the Executive Director at least ten days prior to the event.

Disabled Employee Attendant

A disabled employee requiring daily assistance in performing various personal tasks or having special mobility needs who attends an authorized work related conference, workshop, seminar or meeting requiring overnight travel may request expense reimbursement for lodging, travel and meals for one attendant. The agenda and special expense form must be reviewed by the Deputy Director and approved by the Executive Director at least ten days prior to the event.

State Fair

The following expenses will be approved for employees who work at OT's state fair booth.

1. Fees for admission to the fairgrounds. Tickets are purchased in a block prior to the start of the fair and are available from OT's state fair booth coordinator. As these tickets are sold at a reduced rate, this is the only gate admission OT will reimburse.
2. Taxi fare for employees with a disability who are unable to drive or use other means of public transportation between their normal work station and the fairgrounds or between the employee's residence and the fairgrounds, whichever distance is less.
3. Parking fees will not be reimbursed since Park and Ride is readily available.

Out of State Travel

The Deputy Director or the Executive Director must approve all requests for out of state travel. An Authorization for Out-of-State Travel form must be approved before the OT department travel coordinator will schedule travel or accommodations.

Requests for approval of travel reimbursement after the fact must be accompanied by a written explanation. The request must be reviewed by the Deputy Director and submitted to the Executive Director with a recommendation for action. All travel requests after the fact must be approved by the Executive Director.

All In and Out of State travel will be arranged for by the department travel coordinator. All airline tickets will be purchased through the department's travel agent. Tickets purchased with a personal credit card will not be reimbursed except for good cause shown. All frequent flyer miles earned for work related travel must be credited to the State's account. When personal travel is combined with work related travel, only the cost of the work related travel and its associated expense will be reimbursed.

International Travel

Requests for international travel must be authorized by the Executive Director and approved by the Governor's office and the Commissioner of DOER. Written authorization must be received from the Governor's office and the Commissioner of DOER before the OT department travel coordinator will schedule travel or accommodations.

Individual Employee Awards and Office Recognition Events

The following expenses for individual employee awards and office recognition events may be considered for reimbursement:

1. At the discretion of the Executive Director, awards for individual or group achievements which are limited to non-cash/non-negotiable items of nominal value as provided for under IRS guidelines (currently \$25.00). The agenda and special expense form must be reviewed by the Deputy Director and approved by the Executive Director at least ten days prior to the event.
2. Reasonable costs for annual official office employee recognition events.
 - Up to 100% meal reimbursement for employees being recognized.
 - No reimbursement for other guests.
 - No travel reimbursement or payment for alcoholic beverages.
3. Other employee recognition events as shown in the approved Special Expense Plan, or reviewed by the Deputy Director and approved by the Executive Director on an individual basis, must be approved in advance by the Commissioner of DOER

Special Expenses may not be used to pay for:

- Private club memberships
- Alcoholic beverages
- Entertainment
- Employee Parties (including holiday parties)
- Charitable contributions

Procedures/Forms

All requests must be made on the OT Authorization to Incur Special Expenses form. Requests for reimbursement must be accompanied by a copy of the approved Special Expense form, copies of any required written authorization, and receipts demonstrating payment of expenses by the OT employee requesting reimbursement.

Office of Technology

Authorization for Out-Of-State Travel

Please submit at least ten days prior to anticipated departure date.

DIVISION			NAME(S) AND TITLE(S) OF EMPLOYEE(S) MAKING TRIP:
NAME OF EVENT			
LOCATION OF EVENT			
DATE(S) AND TIME(S) OF EVENT			
DATE REQUESTED	DEPARTURE DATE	RETURN DATE	

MODE OF TRAVEL: ☐ Air ☐ Private Automobile ☐ Rail ☐ Bus ☐ Motor Pool Vehicle
☐ Other _____

ITEMIZED COST OF TRIP:

1. Fare (round trip) \$ _____

2. Lodging
 _____ nights at
 \$ _____ per night \$ _____

3. Meals
 _____ days at
 \$ _____ per day \$ _____

4. Registration Fee \$ _____

5. Other (specify) _____

 _____ \$ _____

- TOTAL ESTIMATED COST \$ _____

JUSTIFICATION OF TRIP (Explain in Detail)

- why is trip in best interest of the state
- what reports and/or workshops will be generated as a result of the trip

Supervisor Authorization:	Date:
Budget Review:	Date:
Deputy Director Review:	Date:
Executive Director Approval:	Date:

Office of Technology

Authorization to Incur Special Expenses

Please submit at least ten days prior to event.

1. Name and Title of Requestor	1a. Agency/Department Name
2. Phone	3. Date this form prepared

4. APPROVAL IS REQUESTED FOR THE FOLLOWING: ("X" all that apply):

- | | |
|---|---|
| (a) <input type="checkbox"/> Meal(s) which exceed maximum state allowance
(b) <input type="checkbox"/> Meal(s) within work area
(c) <input type="checkbox"/> Refreshments (coffee, tea, or soft drinks) | (d) <input type="checkbox"/> Conference and registration fee(s)
(e) <input type="checkbox"/> Lodging within work area
(f) <input type="checkbox"/> Other Special Expense (Specify): |
|---|---|

5. FULL NAME OF CONFERENCE, MEETING, ORGANIZATION, ETC. (No Acronyms, Initials, etc.)	7. DATE(S) AND TIME(S) OF EVENT
6. LOCATION OF EVENT (NAME AND ADDRESS OF HOST FACILITY)	
8. DESCRIBE WHY THE STATE SHOULD PAY THESE EXPENSES:	

9. ITEMIZATION OF COSTS:

DESCRIPTION	QUANTITY	\$ UNIT COST	\$ TOTAL
-------------	----------	--------------	----------

10. NAME OF SPONSOR OR MEETING, CONFERENCE, OR WORKSHOP	TOTAL REQUESTED FOR APPROVAL →
11. FOR WHOM IS APPROVAL OF SPECIAL EXPENSE BEING REQUESTED?	

a. REQUESTOR ONLY ("X")

STATE EMPLOYEES (List Names and Titles If Other Than Requestor)

b. OTHER PARTICIPANTS

Supervisor Authorization:	Date:
Budget Review:	Date:
Deputy Director Review:	Date:
Executive Director Approval:	Date:

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John Gunyou

December 17, 1998

Mr. James Nobles
Office of the Legislative Auditor
1st Floor South, Centennial Building
658 Cedar Street
St. Paul, MN 55155

Dear Mr. Nobles:

Thank you for the opportunity to comment on the draft financial audit report of the Minnesota Office of Technology for the period July 1, 1996, through June 30, 1998. I have offered both general observations and specific suggestions.

There is a clear need to provide better administrative support for new state agencies and small organizations.

I want to strongly reinforce the primary conclusion of the audit that there needs to be a more constructive process for the establishment of new state agencies, and for the provision of continuing administrative support for smaller organizations. Good people trying to do the right thing must have the necessary administrative and technical support to accomplish their primary missions. The experience of the Office of Technology during its first year clearly demonstrates the need for ongoing small agency assistance programs, as well as the need for uniform and easily understood standards covering travel, purchasing, grant management and other administrative practices. Ease of compliance should always be fostered.

The few erroneous payments discovered during the course of the audit were not a result of any wrongdoing, but were attributable to overly complex rules and regulations.

I was gratified to learn that the few erroneous payments the audit identified were promptly repaid, and that they involved good faith efforts to comply with unduly complicated rules and regulations, without adequate support or training. No material financial losses were incurred, and there was no evidence of fraud, abuse or personal betterment at the expense of the state. In fact, the weaknesses in financial oversight largely involved the lack of adequate documentation for the fiscally prudent and entirely legal management decisions of responsible people trying to advance the mission of the Office, despite the lack of proper support to deal with myriad state rules and regulations.

Most financial shortcomings were directly attributable to the failure of the Department of Administration to either exercise proper financial oversight, or to allow the Office of Technology to obtain it's own fiscal staff.

It is ironic that nearly all of the examples cited in the audit as weaknesses occurred when the Department of Administration (DOA) was directly responsible for the financial oversight of the Office of Technology. Despite repeated requests from the Office for the independent authority to hire its own fiscal officer, DOA insisted on retaining complete budget authority. As a result, the Office was solely dependent on the Department of Administration for all financial, personnel, purchasing and other administrative support functions. Unfortunately, DOA oversight was uneven, inadequate and selectively subjective. This failure to provide sufficient administrative support created considerable operational and functional difficulties throughout the entire first year. And even following legislative authorization, little or no transition support was provided to the Office.

In the absence of adequate administrative support from the Department of Administration, the Office of Technology adopted practices commonly followed by other state agencies.

In order to insure some level of fiscal prudence, the Office of Technology adopted the common financial management practices and procedures followed by those agencies from which its staff was drawn. While there may have been lapses in documentation and process, good faith efforts were always made to comply with both the letter and the spirit of the complex state regulations. Management decisions always considered cost effectiveness, as well as whether the mission of the Office was being advanced.

This financial audit should be supplemented by a performance audit to answer the more fundamental question of how well the Office of Technology is now meeting its mission.

I applaud the Legislative Auditor for recommending that a performance audit be conducted for the Office of Technology. By all measures, the newly established Office was a tremendous success during it's first year, in spite of the complexities of the administrative rules and regulations for which it was largely unprepared to deal with. Following its establishment, demonstrable progress was quickly made, and the Office was fulfilling its mission with the strong and enthusiastic support of both the public and private sectors. By the end of its first year, the Office of Technology had transformed Minnesota's uncoordinated and endless technology planning efforts into a comprehensive and shared approach, and was facilitating the actual implementation of numerous public-private partnerships. The prestigious national consulting Gartner Group proclaimed Minnesota as the only state in the country which, "had it right."

Unfortunately, when faced with the inevitable opposition of the state government bureaucracy to the prospect of change, the original mission of the Office was abandoned after its first year. Despite the numerous successes and unqualified momentum of its statewide efforts, the activities of the Office of Technology were curtailed, and put under the strict control of a regulator, which was antithetical to the mission of the Office. Its statewide leadership role was abandoned, and as a consequence, the innovative collaborations that were propelling Minnesota into national prominence have now faltered. In a postmortem review, *City Pages* declared that, "the battle for the Office of Technology is over, and the bureaucrats won."

Thank you again for the opportunity to review the draft audit report of the office I had the honor to establish. If you have any questions regarding these observations and recommendations, please be sure to call.

Sincerely,

A handwritten signature in black ink, appearing to read "John Gunyou", with a long horizontal stroke extending to the right.

John Gunyou
Former Executive Director
Minnesota Office of Technology



Admin MINNESOTA

Department of Administration

Commissioner's Office
200 Administration Building
50 Sherburne Avenue
St. Paul, MN 55155
Voice: 651.296.1424
Fax: 651.297.7909
TTY: 651.297.4357

December 23, 1998

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

Dear Mr. Nobles:

Thank you for the opportunity to add my comments to your audit report of the Minnesota Office of Technology.

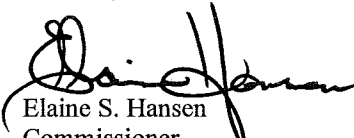
To the extent that the Department of Administration has knowledge of the facts presented, we fully concur with the findings of your audit team. In retrospect, we agree with the audit's conclusion that having the Office of Technology organizationally located in the Department of Children, Families and Learning while relying on funds appropriated to other agencies, including Administration, created "awkward situations" and impeded the ability to "effectively exercise control" over those dollars originally appropriated to Admin.

I do, however, take exception to several of Mr. Gunyou's assertions. The audit found that his Office "was not fiscally responsible in many of its spending decisions" and that it "paid for unreasonable expenses and was not prudent in its travel decisions." Mr. Gunyou's first excuse is that state rules are too complex. However, as the audit makes clear, the primary rules not complied with are "applicable employee bargaining unit agreements and Department of Finance policies," which have essentially been the same for many years. Mr. Gunyou is a former Commissioner of Finance. He strictly enforced these same accounting and fiscal management policies with other agencies – both large and small – while serving in that role. For him to argue that he was somehow unaware of state statutes, processes, policies, bargaining unit agreements, or the small department assistance units at the departments of Finance, DOER and Admin, is simply disingenuous.

Mr. Gunyou goes on to argue that Admin should have prevented his errors through oversight or increased administrative support. However, the examples cited in the audit reflect directly on the judgment and integrity of the Office of Technology's decision-makers. Admin's role was not to second-guess or overrule the decisions of its Executive Director. Generally, any recommendations made by Admin regarding financial practices went unheeded.

In spite of the situation created by Mr. Gunyou, Minnesota is currently enjoying national and international recognition for its technology advancements in both the public and private sectors.

Sincerely,



Elaine S. Hansen
Commissioner