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Missouri State Auditor

ADMINISTRATION

Central Services Cost Allocation Plan

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Office of the
Missouri State Auditor
Susan Montee, JD, CPA

March 2010

The following information and findings were included in our audit of the Office of Administration's (OA) Central Services Cost Allocation Plan.

Beginning in 2002, an amount is appropriated yearly through the state's budget process allocating the costs of central services, paid by the state General Revenue Fund, to various state funds. In fiscal years 2009 and 2008, approximately \$11,879,000 and \$15,288,000 has been recovered by the General Revenue Fund. Central services are services provided to other state agencies by state offices including the OA, State Auditor, Governor, Lieutenant Governor, Secretary of State, Attorney General, General Assembly, Capitol Police, and Department of Revenue. Examples of some central services costs allocated include facilities management, technology services, accounting services, budget and planning, personnel, and purchasing services provided by the OA, audits performed by the State Auditor's office, and the administration of all revenue and taxation duties for the state performed by the Department of Revenue.

The OA has not established adequate policies and procedures to determine the state funds to be included in the Central Services Cost Allocation Plan. Additionally, the OA has not established specific criteria to determine and has not consistently determined the funds to be included and exempted in the Central Services Cost Allocation Plan. During the 2 years ended June 30, 2009, the OA made transfers totaling almost \$3 million from several state funds that, based on legal restrictions, may be questionable. Examples of questionable transfers include:

- Transfers from three state scholarship funds totaling \$210,763 and \$87,087 in fiscal years 2009 and 2008. State law requires moneys in these funds to be used for providing financial assistance to college students.
- Transfers from two state funds to benefit veterans' homes and cemeteries totaling \$682,867 and \$751,067 in fiscal years 2009 and 2008. State law requires moneys in these funds to be used solely for veterans' homes and cemeteries.
- Other examples of questionable transfers include funds restricted for services to domestic violence victims, alcohol and drug rehabilitation services, an endowment trust, workers' compensation, and early childhood development, education and care.

The audit also found errors that were made when calculating the amounts to be transferred from state funds.

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YELLOWSHEET

OFFICE OF ADMINISTRATION
CENTRAL SERVICES COST ALLOCATION PLAN

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STATE AUDITOR'S REPORT



SUSAN MONTEE, JD, CPA

Missouri State Auditor

Honorable Jeremiah W. (Jay) Nixon, Governor
and

Kelvin L. Simmons, Commissioner
Office of Administration
Jefferson City, Missouri

We have audited the Office of Administration's Central Services Cost Allocation Plan. The scope of our audit included, but was not necessarily limited to, the years ended June 30, 2009 and 2008. The objectives of our audit were to.

1. Evaluate the agency's internal controls related to the Central Services Cost Allocation Plan.
2. Evaluate the agency's compliance with certain legal provisions.
3. Evaluate the economy and efficiency of certain management practices.

Our methodology included reviewing written policies and procedures, financial records, and other pertinent documents; interviewing various personnel of the office; testing selected transactions; and reviewing reports that are specific to the office's operations and significant within the context of the audit objectives.

We obtained an understanding of internal controls that are significant within the context of the audit objectives and assessed whether such controls have been properly designed and placed in operation. We also tested certain of those controls to obtain evidence regarding the effectiveness of their design and operation. However, providing an opinion on the effectiveness of internal controls was not an objective of our audit and accordingly, we do not express such an opinion.

We obtained an understanding of legal provisions that are significant within the context of the audit objectives, and we assessed the risk that illegal acts, including fraud, and violations of contract, grant agreement, or other legal provisions could occur. Based on that risk assessment, we designed and performed procedures to provide reasonable assurance of detecting instances of noncompliance significant to those provisions. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not

express such an opinion. Abuse, which refers to behavior that is deficient or improper when compared with behavior that a prudent person would consider reasonable and necessary given the facts and circumstances, does not necessarily involve noncompliance with legal provisions. Because the determination of abuse is subjective, our audit is not required to provide reasonable assurance of detecting abuse.

We conducted our audit in accordance with the standards applicable to performance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides such a basis.

The accompanying History and Organization is presented for informational purposes. This information was obtained from the office's management and was not subjected to the procedures applied in our audit of the office.

The accompanying Management Advisory Report presents our findings arising from our audit of the Office of Administration's Central Services Cost Allocation Plan.



Susan Montee, JD, CPA
State Auditor

The following auditors participated in the preparation of this report:

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Audit Manager:	Randall Gordon, M.Acct., CPA, CGAP
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**MANAGEMENT ADVISORY REPORT -
STATE AUDITOR'S FINDINGS**

**OFFICE OF ADMINISTRATION
CENTRAL SERVICES COST ALLOCATION PLAN
MANAGEMENT ADVISORY REPORT -
STATE AUDITOR'S FINDINGS**

1.

Questionable Transfers

The Office of Administration (OA) has not established adequate policies and procedures to determine the state funds to be included in and exempted from the Central Services Cost Allocation Plan. Central services costs paid by the General Revenue Fund are allocated yearly to various state funds. In fiscal years 2009 and 2008, approximately \$11,879,000 and \$15,288,000 was recovered by the General Revenue Fund. Of these amounts, transfers totaling almost \$3 million may be questionable.

- A. The OA has not established adequate policies and procedures to determine the state funds to be included in and exempted from the Central Services Cost Allocation Plan. The OA's cost allocation methodology excludes Elementary and Secondary Education funds and funds that support the agencies which have its costs allocated. However, the OA has not established specific criteria to determine and has not consistently determined the funds to be included and exempted in the Central Services Cost Allocation Plan. For example, the OA determined internal service funds were exempt, but later decided to only exempt the State Facilities Maintenance and Operating Fund and the Revolving Administrative Trust Fund. In addition, based upon a review of 60 of 261 funds included in the Central Services Cost Allocation Plan, we noted other funds that appear questionable based on legal restrictions.
- B. Based on legal restrictions the allocation of central services costs appear questionable for the following funds:

- Missouri College Guarantee Fund and the Access Missouri Financial Assistance Fund
Section 173.830, RSMo, which has recently been repealed, formerly stated ". . . the moneys in the fund shall be used solely by the coordinating board for higher education pursuant to sections 173.810 to 173.827 for the awarding of scholarships to eligible students and for other purposes pursuant to sections 173.810 to 173.827. . ." The only expenditures made from this fund in fiscal years 2009 and 2008 were to provide scholarships. Transfers were \$83,341 in fiscal year 2008.

In fiscal year 2009, the Access Missouri Financial Assistance Fund was used for this purpose and the Missouri College Guarantee Fund was abolished. However, this fund also appears to be restricted. Section 173.1103.3, RSMo states ". . . money in the fund shall be used solely to provide financial assistance to qualified applicants as provided by Sections

173.1101 to 173.1107. . . ." The only expenditures made from this fund in fiscal year 2009 were to provide scholarships. Transfers were \$207,137 in fiscal year 2009.

- **Veterans' Commission Capital Improvement Trust Fund**

Section 313.835.1(2), RSMo, indicates this fund shall be used solely by the Missouri Veterans' Commission for construction, maintenance, renovation or equipment needs of veterans' homes and cemeteries in Missouri, and for transfers defined in the statute. According to the statute this fund may also be used for ". . . matching fund grants for veterans' service officer programs to any federally chartered veterans' organization or municipal government agency that is certified by the Veterans Administration to process veteran claims within the Veterans Administration System. . . ." The statute also indicates the fund may be used for ". . . payment of Missouri national guard and Missouri veterans' commission expenses associated with providing medals, medallions and certificates in recognition of service in the armed forces of the United States during World War II and the Korean Conflict." Transfers were \$38,934 and \$108,458 in fiscal years 2009 and 2008.

- **Mental Health Earnings Fund**

Section 630.053.2, RSMo, states the fees in this fund ". . . shall be appropriated solely for assistance in securing alcohol and drug rehabilitation services for persons who are unable to pay for the services they receive." The statute also states the moneys in this fund ". . . shall not be used for personal services, expenses and equipment or for any demonstration or other program." Transfers were \$51,242 and \$53,935 in fiscal years 2009 and 2008.

- **Marguerite Ross Barnett Scholarship Fund**

Section 173.262.1, RSMo, states ". . . any moneys appropriated by the general assembly for this program shall be used to provide scholarships for Missouri citizens to attend a Missouri college or university of their choice pursuant to the provisions of this section." The only expenditures made from this fund in fiscal years 2009 and 2008 were to provide scholarships. Transfers were \$3,626 and \$3,746 in fiscal years 2009 and 2008.

- **Champ W. Smith and Mary C. Smith Memorial Endowment Trust Fund**

This fund was administratively created by the OA. The moneys in this fund were received from an estate distribution and per the will, the income for this fund can be spent only for crippled children's services and not for ordinary expenses. Health related expenses were incurred in fiscal year 2009 but not in fiscal year 2008. No other expenditures were made from this fund in fiscal years 2009 and 2008. Transfers were \$356 and \$173 in fiscal years 2009 and 2008.

- Missouri Veterans' Homes Fund
Section 42.121.1, RSMo, states the ". . . fund and all interest earned shall be maintained solely for the use of Missouri veterans' homes. . . ." Transfers were \$643,933 and \$642,609 in fiscal years 2009 and 2008.
- Early Childhood Development, Education and Care Fund
Section 313.835.1(3)(d), RSMo, states all moneys in the fund ". . . shall be annually appropriated for voluntary, early childhood development, education and care programs serving children in every region of the state not yet enrolled in kindergarten." Transfers were \$238,565 and \$262,966 in fiscal years 2009 and 2008.
- Workers' Compensation Fund
Section 287.710.5, RSMo, states this fund ". . . shall be used for the purpose of making effective the law to relieve victims of industrial injuries from having individually to bear the burden of misfortune or becoming charges upon society and for the further purpose of providing for the physical rehabilitation of the victims of industrial injuries, and for no other purposes. . . ." Transfers were \$131,485 and \$134,636 in fiscal years 2009 and 2008.
- Division of Tourism Supply Revolving Fund
Section 620.467.1, RSMo, states any moneys ". . . shall be used solely by the division of tourism of the department of economic development to carry out the duties and functions of the division as prescribed by law. . . ." Transfers were \$121,368 and \$121,927 in fiscal years 2009 and 2008.
- Services to Victims Fund
Sections 595.050, 595.100, and 595.105, RSMo, indicate the fund shall be used solely for the administration of services to victims, contracts for services to victims, and funding for shelters for domestic violence victims and agencies. The Department of Public Safety, the state agency administering the fund, only expended \$27,344 and \$26,806 for personal service and expense and equipment expenditures from the fund in fiscal years 2009 and 2008. Transfers were \$57,066 and \$51,821 in fiscal years 2009 and 2008.
- Department of Revenue Information Fund
Section 32.067.1, RSMo, states funds can be disbursed for ". . . personal services, expenses, and equipment required to prepare and disseminate requested information and to refund overpayments for such information and publications to individuals and organizations and for no other purpose." Transfers were \$8,890 and \$7,849 in fiscal years 2009 and 2008.

Policies, procedures, and the criteria used for determining which funds are included in and exempted from the Central Services Cost Allocation Plan should be revised to ensure the legality and consistent treatment of future allocations. After policies and procedures are revised and the legal basis for funds included in the Central Services Cost Allocation Plan reviewed, transfers from funds deemed unallowable should be discontinued and the OA should consider refunding the unallowable transfers to the appropriate funds.

WE RECOMMEND the OA:

- A. Revise the policies and procedures, and establish criteria to determine which funds are included in and exempted from the Central Services Cost Allocation Plan.
- B. Review the legal basis of all funds included in the Central Services Cost Allocation Plan to ensure the transfers are allowable. If any transfer is deemed unallowable, future transfers should be discontinued and the OA should consider refunding the unallowable transfers to the appropriate funds.

AUDITEE'S RESPONSE

- A. *At the inception of the plan, the Office of Administration developed written procedures. These procedures include both cost allocation methodology and guidelines as to which funds are to be exempted automatically. These explanations are distributed yearly to the departments during the calculation of the amounts for the following year's plan.*
- B. *A review of the funds included in the Central Services Cost Allocation Plan is conducted annually during the calculation and allocation of funds. Further, departments may submit a request for fund review at any point for consideration of allowable/unallowable transfers.*

2.

Cost Allocation Errors

The OA made errors when calculating the amounts to be transferred from state funds, and a reconciliation is not performed to ensure amounts are accurately transferred between the Central Services Cost Allocation Plan spreadsheet and the allocation by fund spreadsheet.

- A. The OA allocates central services costs based on each fund's expenditures with the exception of costs related to the Department of Revenue, which are allocated based on each fund's revenues. During the year ended June 30, 2009, the OA erroneously excluded expenditures totaling \$8,594,683 made from biennial appropriations for five funds. These funds were undercharged by \$6,759 and the other funds included in the Central Services Cost Allocation Plan were overcharged by this amount.

To ensure central services costs are properly allocated, procedures should be developed to include all expenditures in the allocation.

B. Errors were made when manually transferring amounts from the Central Services Cost Allocation Plan spreadsheet to the allocation by fund spreadsheet. As a result of these errors, during the years ended June 30, 2009 and 2008, \$5,767 was undercharged and \$21,657 was overcharged to the state funds included in the Central Services Cost Allocation Plan. For example, during fiscal year 2009, the Workers' Compensation Second Injury Fund was undercharged by \$15,800. This was caused by erroneously entering the amount of costs to be allocated for the Governor's office. OA personnel entered \$1,743 but should have entered \$17,543 in the spreadsheet. In another example, due to these errors, the OA Revolving Administrative Trust Fund was overcharged by \$24,272 during fiscal year 2008.

To ensure amounts are accurately transferred from the Central Services Cost Allocation Plan spreadsheet to the allocation by fund spreadsheet a reconciliation should be performed.

WE RECOMMEND the OA develop procedures to ensure accurate expenditure amounts are used to calculate the cost allocations and to perform a reconciliation between the Central Services Cost Allocation Plan spreadsheet and the allocation by fund spreadsheet.

AUDITEE'S RESPONSE

The Office of Administration agrees that biennial appropriations should be included in the Central Services Cost Allocation Plan. Future reports will be run to include the relevant biennial expenditures and revenues. The methodology of Central Services Cost Allocation Plan calculations has been amended in order to reduce and/or eliminate the discrepancies between spreadsheets. This change is based on greater use of electronic transfers of information, rather than manual transfers of information.

HISTORY AND ORGANIZATION

**OFFICE OF ADMINISTRATION
CENTRAL SERVICES COST ALLOCATION PLAN
HISTORY AND ORGANIZATION**

The OA is the state's service and administrative control agency. Created by the General Assembly on January 15, 1973, it combines and coordinates the central management functions of state government. Its responsibilities were clarified and amended by the Omnibus State Reorganization Act of 1974.

The chief administrative officer is the Commissioner of Administration, who is appointed by the governor with the advice and consent of the Senate. The commissioner appoints the deputy commissioner, assistant commissioner, chief counsel, and the directors of the divisions who report directly to him. The divisions are: Accounting; Budget and Planning; Facilities Management, Design and Construction; General Services; Information Technology Services; Personnel; Purchasing and Materials Management; and the Office of Supplier and Workforce Diversity. In addition, the Office of Administration provides administrative and/or budgetary oversight for various boards, councils, and commissions.

Beginning in 2002, an amount is appropriated yearly through the state's budget process allocating the costs of central services, paid by the state General Revenue Fund, to various state funds. In fiscal years 2009 and 2008, approximately \$11,879,000 and \$15,288,000 has been recovered by the General Revenue Fund. Central services are services provided to other state agencies by state offices including the OA, State Auditor, Governor, Lieutenant Governor, Secretary of State, Attorney General, General Assembly, Capitol Police, and Department of Revenue. Examples of some central services costs allocated include facilities management, technology services, accounting services, budget and planning, personnel, and purchasing services provided by the OA, audits performed by the State Auditor's office, and the administration of all revenue and taxation duties for the state performed by the Department of Revenue.

For state fiscal year 2009, OA maintained approximately 550 state funds. The OA allocates central services costs based on each fund's expenditures with the exception of the Department of Revenue, which are allocated based on each fund's revenues. The OA allocates each cost pool individually for each state fund on the Central Services Cost Allocation Plan spreadsheet. These calculations are transferred to the "allocation by fund" spreadsheet to determine the total costs to be allocated to each fund. Based on OA's analysis, OA made transfers from approximately 260 funds to the General Revenue Fund. The remaining funds either did not have any expenditures, or were determined to be exempt and the General Revenue Fund absorbed these costs. The OA makes quarterly transfers from most funds, however, an annual transfer is made from some funds.

Michael Keathley served as the Commissioner of Administration until March 2008. Larry Schepker was appointed Commissioner of Administration during March 2008 and served in that capacity until January 2009 when Kelvin L. Simmons became Commissioner of Administration. The OA employed approximately 2,075 full and part-time employees as of June 30, 2009.