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Missouri State Auditor

STATEWIDE

Year End Spending Practices

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CITIZENS SUMMARY

Findings in the audit of Year End Spending Practices

Background

Entities are granted the authority to spend public monies through appropriations. Regular appropriations not spent by the end of the fiscal year lapse on June 30 and are no longer available to be spent by the entity. This audit was conducted to determine if the state follows sound financial and management practices with respect to year end spending. The audit focused on the 2 years ended June 30, 2011. Auditors identified agencies that spent 25 percent or more of the agency's General Revenue Fund total expenditures in May and June from numerous object codes. Auditors selected five of these agencies for audit: Department of Corrections; Office of Administration; Department of Mental Health; Department of Revenue; and Judiciary - Supreme Court and Office of State Courts Administrator. While the audit did not identify instances of wasteful spending, the audit did identify examples of purchases made at year end that: 1) were expedited and paid before due; 2) resulted in higher than normal inventory levels; 3) were charged to the state's General Revenue Fund instead of agency controlled dedicated funds; and 4) were not placed into service in a timely manner.

Our audit noted that agencies purchase goods and services toward the end of the year for a wide variety of reasons with some reasons appearing more legitimate than others. Some state employees that contacted us indicated unnecessary year end spending occurs, and that lapsing funds could result in future funding cuts. Missouri does not have specific laws, rules, policies or procedures directly related to year end spending, but the federal government adopted the "bona fide needs" rule which requires that appropriations be used only to meet legitimate needs arising during the appropriation's fiscal year. In other words, federal agencies are prohibited from using up a current year appropriation for purchases that are not needed for that year's use, and the Office of Administration should consider providing state agencies with guidance on the appropriate use of remaining appropriations at year end.

Department of Corrections (DOC)

The DOC spent $313,198 on handheld radio telephones and accessories on June 23, 2011, but as of November 4, 2011, the radio telephones were not in use because the necessary programming services had not yet been procured. Similarly, the DOC purchased a replacement washer extractor costing $103,925 on June 26, 2011, but, because its installation required building modifications, 7 months later it had not yet been installed. The DOC used almost $500,000 of General Revenue Fund appropriations, originally intended for other DOC divisions, to pay for various Missouri Corrections Integrated System (MOCIS) project deliverables because project costs exceeded the MOCIS appropriation. The DOC also paid off five leases early; the state saved $12,600 in interest by paying off four of the leases but realized no savings for paying off the fifth. The DOC spent over $2 million in May/June 2010 and 2011 for supplies and clothing, which resulted in higher than normal inventory levels.

Office of Administration (OA)	The OA wrote a fiscal year 2010 check for $45,625 on June 23, 2010, but held the check for nearly 3 months because the project was not complete. An OA employee e-mailed the vendor stating, "As we are at the end of the fiscal year, we need to issue a check for this project to ensure that we don't lapse the funding. We will hold this check in our safe until the project is complete." The Code of State Regulation does not allow advance payment of goods or services not yet received and provides that services provided in the next fiscal year cannot be charged to the prior year appropriation. The OA used General Revenue Fund monies to make an advance payment of $288,000 on the State Data Center lease, which should have been made from a dedicated fund. The OA also transferred payments of approximately $1.6 million for a unified communications system from a dedicated fund to the General Revenue Fund. In June 2010, the OA spent $393,000 from the General Revenue Fund for telephones and network components, but the telephones were not installed until September/October in fiscal year 2011. The OA paid off a lease early because General Revenue Fund monies were available; the state realized no interest savings by doing so.
Office of State Courts Administrator (OSCA)	The OSCA paid for recurring network data line charges that were not incurred until the subsequent fiscal year. The data line charges contract states that payments will only be made in arrears; advance payments are not allowed.
Department of Mental Health (DMH)	The DMH paid off a 5-year loan for equipment 3 months after loan origination. The early payoff saved $7,729 in interest costs but did not have to be made from the current year appropriation.
Department of Revenue (DOR)	The DOR issued a check for $85,458 on June 24, 2011, for various hardware components, but the components were not delivered and the check was not released until September 30 of the next fiscal year. The DOR purchased significant amounts of postage at year end, resulting in higher than normal inventory levels. The last two Reserve Account purchases of fiscal year 2011 increased postage levels to over $600,000 at year end, and these purchases subsidized postage usage for all of July 2011 and into August 2011. Similarly, it appears more than $100,000 in excess postage was purchased for a United States Postal Account at the end of fiscal year 2010. The DOR purchased significant amounts of cigarette tax stamps at year end, resulting in higher than normal inventory levels.
American Recovery and Reinvestment Act (Federal Stimulus)	Not Applicable.

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Honorable Jeremiah W. (Jay) Nixon, Governor
and
Doug Nelson, Acting Commissioner
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We have audited the state's Year End Spending Practices. This audit was conducted to determine if the state's year end spending practices are in accordance with sound financial and management practices. The objectives of our audit were to:

1. Evaluate internal controls over significant management and financial functions, including controls to detect and prevent unnecessary year end spending.

2. Evaluate the economy and efficiency of the state's year end spending practices.

3. Evaluate compliance with certain legal provisions.

We determined the state does not have legal provisions, rules, policies, or procedures directly related to appropriate use of spending authority remaining toward year end and should consider implementing additional controls to ensure year end purchases are made in accordance with sound financial and management practices. While the audit did not identify instances of wasteful spending, the audit did identify examples of purchases made at the end of the year that 1) were expedited and paid before due, 2) resulted in higher than normal inventory levels, 3) were charged to the state's General Revenue Fund instead of agency controlled dedicated funds, and 4) were not placed into service in a timely manner.

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.

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Year End Spending Practices
Introduction

Background

The Missouri General Assembly and the Governor grant legal authorization to make expenditures. No expenditures are permitted unless spending authority is granted by an appropriation. Regular appropriations not spent by year end lapse on June 30. Section 33.065, RSMo, states, "No appropriation shall confer authority to incur an obligation after the termination of the fiscal year to which it relates."

The state Office of Administration (OA) has implemented various fiscal practices that control the rate of spending throughout the fiscal year. The state financial system, Statewide Advantage for Missouri (SAM II), identifies and rejects expenditures or encumbrances that exceed the available balance of an appropriation. In addition, allotments establish spending controls over appropriations for each 3-month quarter of the fiscal year. Any portion of the allotment period that is unexpended or unencumbered in one quarter is available in the next quarter. Each fiscal year, the OA, Division of Budget and Planning (DBP), will determine the percent allocated by quarter, which is generally 40 percent allocated in the first quarter, with 20 percent allocated in the second, third, and fourth quarters of the fiscal year. Some agencies are allowed allocation percentage flexibility between quarters, and the OA, DBP authorizes such agency requests. However, the OA does not mandate how agencies manage their appropriations or have specific controls in place directly related to year end spending.

In addition, during the appropriation process, some agencies are allowed a specified percentage of flexibility in spending between personal service and expense and equipment appropriations. The OA, DBP authorizes agency transfer requests between these appropriations.

The OA also has various Codes of State Regulations (CSR) which provide guidance to the appropriateness of agency payments, such as 1 CSR 10-3, Preapproval of Claims and Accounts, and 1 CSR 10-11, Travel Regulations. In addition, the OA has developed various statewide policies regarding specific types of agency payments, such as state travel and agency provided food.

When faced with annual budget reductions and Governor withholdings, agencies may feel more pressure to spend remaining funds at year end to avoid a budget reduction in future years. Such thinking may result in inefficient and ineffective procurements at year end. This audit was conducted to determine if state year end spending practices are in accordance with sound financial and management practices.

Scope and Methodology

The scope of our audit included internal controls over significant management and financial functions and compliance issues in place during the 2 years ended June 30, 2011.

Our methodology included analyzing SAM II system financial data; reviewing correspondence of and conducting interviews with appropriate agency officials and staff; and testing selected transactions.

To evaluate state internal controls related to year end spending and significant management and financial functions, we interviewed OA officials and reviewed OA financial policy and procedure manuals.

To evaluate the economy and efficiency of agencies' year end spending and certain management practices and operations, we obtained and analyzed data files from the SAM II system. We focused this analysis on the state's General Revenue Fund (GRF) and American Recovery and Reinvestment Act of 2009 Budget Stabilization Funds for the 2 years ended June 30, 2011, because most other state funds are dedicated funding for specific agencies and while unexpended appropriations from the dedicated funding lapse, the agencies retain the cash balances in those dedicated funds.

We analyzed GRF expenditures from SAM II object codes that appeared to be more susceptible to year end spending, such as commodity and service object codes, with expenditures of more than $20,000 during the year. We identified multiple agencies with numerous object codes with expenditures of 25 percent or more of their GRF total expenditures during the months of May and June. We selected five of these agencies to include in our audit work based on the dollar amount of expenditures related to those object codes. The five agencies included the Department of Corrections, OA, Department of Mental Health, Department of Revenue, and the Judiciary - Supreme Court and Office of State Courts Administrator. The tables in Appendix A represent the object codes identified with expenditures totaling more than $20,000 during the fiscal year, and with 25 percent of the total object code expenditures occurring during May and June of 2011 and 2010 for these five agencies.

For the five agencies, we scanned SAM II expenditure detail information of certain object codes, focusing on payment dates, amounts, vendors, and expenditure description, and judgmentally selected individual payments to test. We reviewed 152 and 127 individual payments totaling approximately $21.9 million and $11.8 million for fiscal years 2011 and 2010, respectively. While our report details issues noted with several of these payments, we also noted other similar concerns that are not included in our report because they were less significant.

Utilizing the work performed during our analysis of SAM II detail information, we identified expenditures to test at each of the five agencies. We reviewed the supporting documentation for the payments and discussed the payments with appropriate agency personnel to determine the items or services purchased at year end were necessary for the agencies' current operations.

Agencies' Year End Spending

Our audit noted that agencies purchase goods and services toward the end of the year for a wide variety of reasons, with some reasons appearing more legitimate than others. Some state employees that contacted us indicated unnecessary year end spending occurs, and that lapsing funds could result in future funding cuts. Since the state does not have specific laws, rules, policies, or procedures directly related to appropriate expenditures of funds at year end, definitive criteria were not readily available to conclude if specific purchases were made in accordance with sound financial and management practices. Our audit did not identify widespread instances of wasteful spending; however, our report consists of various examples of year end purchases at the agencies we audited and reasons given by agency officials for making those purchases. In some cases, the purchases appear to have been disbursed to prevent the lapse of appropriated funds.

Lack of laws, policies, and procedures

While the state does not have specific laws, rules, policies, or procedures directly related to year end spending practices, the federal government has adopted a rule, known as the bona fide needs rule, which requires that an appropriation may only be used to meet a legitimate need arising during an appropriation's fiscal year. The federal rule requires that federal agencies not make an effort to use up a current year's appropriation for purchases that are not necessary for that year's use.

Appropriations are frequently fully or almost fully spent by year end. At June 30, 2011, 270 of the 717 regular and biennial General Revenue Fund (GRF) fixed appropriations (38 percent) were fully spent, and another 100 (14 percent) of the appropriations lapsed less than $10. Of the 58 regular and biennial American Recovery and Reinvestment Act of 2009 (ARRA) Budget Stabilization Funds fixed appropriations, 40 (69 percent) were fully spent, and another 2 (3 percent) of the appropriations lapsed less than $10. At June 30, 2010, 294 of the 733 regular and biennial GRF fixed appropriations (40 percent) were fully spent, and another 105 (14 percent) of the appropriations lapsed less than $10. Of the 138 regular and biennial ARRA Budget Stabilization Funds fixed appropriations, 86 (62 percent) were fully spent, and another 12 (9 percent) of the appropriations lapsed less than $10.

During the course of the audit, we received comments from state employees which indicated unnecessary year end spending occurs. In addition, agency personnel and comments received from state employees provided some legitimate reasons for significant year end spending. These reasons include fiscal constraints due to the state's economic crisis and Governor's withholdings that can occur as late as March or April. For example, state agency personnel indicated management may intentionally decide to spend less during the first three quarters of the fiscal year in the event withholdings occur. After Governor's withholdings are announced and agencies are sure of remaining appropriations, they purchase needed items, if funds are available.

While our test work determined the agencies generally had a legitimate need for the items or services we reviewed, we noted examples of year end purchases that could have been made from subsequent year appropriations.

DOC significant year end purchases

We noted the following instances of significant year end spending at the Department of Corrections (DOC).

Equipment purchased but not placed into service in a timely manner

The DOC purchased equipment which could not be placed into service due to programming and building modification requirements. Examples of equipment purchases include:

- The DOC purchased 550 handheld radio telephones and accessories on June 23, 2011, totaling $313,198, for various facilities. DOC personnel indicated the equipment was purchased to become compliant with the Federal Communications Commission (FCC) mandate for narrowband compatibility. The equipment was received by the DOC on June 20, 2011, to be allocated to each of the correctional facilities based on their size and security level. The equipment required programming to be performed before it was operational, which was to be accomplished through further bidding and contracting by the OA. As of November 4, 2011, an OA, ITSD employee stated the bidding phase of the programming contract had not yet begun; therefore, approximately 4 months after the purchase of the equipment, the radio telephones had not yet been placed into service.

- The DOC purchased a washer extractor on June 26, 2011, totaling $103,925, for the Western Reception, Diagnostic and Correctional Center (WRDCC). The new equipment was purchased to replace existing equipment; however, according to DOC management, it was unknown at that time the equipment's specifications would require building modifications prior to installation. According to an OA, Facilities Management, Design and Construction (FMDC) employee, the OA, FMDC had to investigate the work required to modify the building for the installation and determine whether the OA, FMDC had the personnel and expertise to perform the work or whether the work should be contracted out.

  A Request for Proposals for installation of the washer extractor was issued by the DOC on November 8, 2011, with bids due on December 1, 2011. According to DOC management, as of January 26, 2012, the contract has been awarded and work is scheduled.

Therefore, the washer extractor will not be installed until at least 7 months after purchase.

The state does not have specific guidance to determine if it is proper to make payments at year end for equipment which will not be placed into service in a timely manner.

Missouri Corrections Integrated System (MOCIS) project

The DOC used $498,000 of GRF appropriations, originally intended for other DOC divisions, to pay for various MOCIS project deliverables. The $498,000 was paid from the GRF because project costs exceeded available funding in the Inmate Revolving Fund (IRF) MOCIS appropriation.

The DOC fiscal year 2009 budget request included a new decision item to replace the DOC offender management information system with a new web-based MOCIS. The goal of the MOCIS is to provide for easier exchange of offender data with other state and law enforcement agencies and to track agency activity and performance. The decision item requested approximately $10.5 million from the IRF to fund the MOCIS. The Governor recommended the requested funding from the IRF but transferred the project to the OA, ITSD budget.

In April, May, and June 2011, we noted multiple email conversations between DOC and OA employees discussing using DOC GRF appropriations to pay for various MOCIS project deliverables. The DOC and OA, ITSD entered into an inter-agency spending delegation agreement in May 2011 which allowed the OA, ITSD authority to access specific DOC GRF appropriations not previously transferred to OA, ITSD in the consolidation budgeting process. Pursuant to this agreement, we noted payments processed in June 2011 totaling $188,702 from three DOC GRF appropriations for numerous MOCIS deliverables, including healthcare; release and discharge; Ftrack (probation and parole field supervision); and housing, security, and scheduling. We also noted journal vouchers processed in June 2011 totaling $309,298 to transfer portions of 12 previous payments of various MOCIS deliverables made between the months of November 2010 and April 2011 from the IRF to the GRF.

The email conversations between DOC and OA employees identify the reason for transferring the payments from the IRF to the GRF as a declining balance in the IRF MOCIS appropriation. According to DOC management, there was not enough remaining in the IRF MOCIS appropriation to complete a module relating to Probation and Parole Board operations that was deemed critical. However, DOC management stated they recognized there would be lapsed GRF appropriations of the Substance Abuse Services within the Division of Offender Rehabilitative Services (DORS) and it was determined these appropriations could be expended on the development of the MOCIS healthcare module. By doing so, the DOC utilized the remaining IRF appropriation on the Probation and Parole Board operations module. While the DORS appropriations covered $448,000 of MOCIS deliverables including healthcare and housing, security, and scheduling, a Probation and Parole GRF appropriation covered $50,000 in other MOCIS deliverables, including Ftrack and release and discharge.

The state does not have specific guidance to determine if it is proper to make payments at year end from GRF appropriations for goods and services routinely purchased from agency dedicated funds.

Lease payoffs

Some early lease payments were made at the end of fiscal year 2010. DOC management stated the leases were paid off early because GRF monies were currently available and the increased possibility of cuts in future years due to the current budget situation may not allow for future payments. While this practice saved the state interest of approximately $12,600 that would have been owed on some future payments, there was no savings from one lease payoff and the early payments did not have to be made from the current year appropriation. Examples of lease payoffs made by the DOC include:

- In May 2010, the DOC paid off four separate vehicle leases for 42 vehicles totaling $333,975. The four leases were entered into in May 2007, April 2008, and June 2009, with lease terms of 5 years and total financing of $605,459. Final payments on two of the leases were due in May 2012, whereas the other two leases were due in May 2013 and May 2014. Interest savings of approximately $12,600 were realized by paying the leases early.

  All four leases were entered into using the state's Master Lease Services contract. The Master Lease is a capital lease because the state has title to the property after the lease term is complete. The contract is for all state agencies' use and financing may be entered into for eligible tangible property and software, including computer equipment, office equipment, telecommunications or telephone systems, printing and typesetting equipment, vehicles, laboratory and medical equipment, airplanes, and portable structures, and to refinance current lease/purchase agreements held by the state.

- In June 2010, the DOC paid off the lease financing portion of the Jefferson City Correctional Center (JCCC) telephone system totaling $26,430. The lease agreement was entered into in 2008, and as of June 10, 2010, there were 12 payments remaining. According to DOC personnel, there was no interest related to this lease; therefore, the state realized no savings from the early payoff of the phone system.

The state does not have specific guidance to determine if it is proper to make payments early (before they are due) to use appropriations before they lapse. This practice allows an agency to use funds remaining at the end of the year, thereby potentially increasing available funds in future years for other purposes. In addition, this practice allows an agency to spend its entire appropriation authority and obtain additional equipment with a lease/purchase agreement.

Missouri Vocational Enterprises payments

DOC payments were issued to the DOC, Division of Offender Rehabilitative Services, Missouri Vocational Enterprises (MVE) program in May and June 2011 totaling approximately $2.4 million and in May and June 2010 totaling approximately $2.3 million. These payments represent 47 percent and 30 percent of all DOC payments to the MVE in fiscal years 2011 and 2010, respectively. DOC management claimed the facilities must maintain supplies and clothing on hand that can be provided to the inmates, and that each facility is allowed to purchase this type of supply as they deem necessary as long as funding is available. These purchases resulted in higher than normal inventory levels.

The state does not have specific guidance to determine if it is proper to purchase inventory items at year end that will result in higher than normal inventory levels.

OA significant year end purchases

We noted the following instances of significant year end spending at the Office of Administration (OA).

Held check

The OA generated but held a fiscal year 2010 check totaling $45,625 for 3 months because the project was not completed until fiscal year 2011. This project was for a biometric finger reading security system at the DOC. OA, FMDC personnel performed the bidding of this project and issued the project contract with authorization to proceed on June 4, 2010. The project had an expected completion date of August 9, 2010.

On June 10, 2010, an OA, FMDC employee sent an email to the vendor stating, "As we are at the end of the fiscal year, we need to issue a check for this project to ensure that we won't lapse the funding. We will hold this check in our safe until the project is completed. In order to issue this check, we need to get a final invoice." An OA, FMDC manager indicated he believed the job was almost complete at year end and that the final close out information was all OA, FMDC was waiting on; therefore, a check was cut on June 23, 2010. However, included in the supporting documentation for this payment was a contract change form dated June 17, 2010, seven days after the email was sent to the vendor requesting a final invoice, stating the completion date of the project was still August 9, 2010. The check was eventually released to the vendor on September 16, 2010, almost 3 months after the check was issued.

Section 1 Code of State Regulation (CSR) 10-3.030(2)(J) does not allow advance payment of goods or services not yet received. In addition, 1 CSR 10-3.010(3)(B) states claims for services provided in the next fiscal year cannot be charged to the prior year appropriation. Each CSR includes exceptions to these requirements, including when payment in advance is the normal business practice, such as for subscriptions, registrations, memberships, insurance, postage, maintenance agreements, and building or parking rentals, or if required as a condition of the sale or by contract. However, this payment does not fall within the exceptions allowing advance payment of goods or services. Because the expected completion date of this system was not during fiscal year 2010, and the check was held for almost 3 months after the end of the fiscal year, the invoice should not have been paid from a fiscal year 2010 appropriation.

Transfer of GRF monies

GRF monies were paid to a dedicated fund at the end of fiscal year 2010 to help make an advance payment on the State Data Center lease. The State Data Center operations are appropriated from the dedicated fund. OA management stated the payment was made because GR funds were available.

As evidenced through emails between an OA, ITSD employee and an OA, Division of Accounting employee, in June 2010, OA, ITSD personnel made the decision to initiate an interagency billing transaction resulting in payment of $288,000 from the GRF (approximately the amount remaining in the Information Technology Consolidation expense and equipment appropriation) to the OA Revolving Administrative Trust Fund (RATF) for an advance payment on its State Data Center mainframe lease. The interagency billing payment was processed on June 28, 2010, and an advance lease payment of approximately $883,400 was disbursed from the OA RATF on that same day.

The $288,000 should not have been paid from the GRF because the operations of the State Data Center are appropriated from the OA RATF. In addition, the OA, ITSD processed four quarterly payments in fiscal year 2011, all from the OA RATF.

The state does not have specific guidance to determine if it is proper to make payments at year end from GRF appropriations for goods and services routinely purchased from agency dedicated funds.

Unified communications system design and installation

The OA transferred payments for a unified communications system from a dedicated fund to the GRF.

In 2010, the state began the process of implementing a unified communications system which converts an outdated communications environment to a modern communications system. The initial payment and first quarterly finance payment of the design and installation of this system were paid from the OA RATF, Telecom Revolving Fund appropriation in the months of February, March, April, and May 2011. This appropriation funds operations of the centralized telephone billing system used by state agencies. However, the OA processed journal vouchers on May 31, 2011, to transfer these payments to the GRF Information Technology Consolidation appropriation which funds the operations of the OA, ITSD. The payments transferred totaled approximately $1.6 million. According to OA management, these payments were originally intended for payment from the GRF; however, due to uncertainty in the cash available in the GRF, the payments were instead made from the OA RATF. The OA did not provide documentation to support the contention that the costs should have originally been paid from the GRF, and the 2010 and 2011 budgets did not include any discussion of the unified communications system.

By adjusting the payments from the RATF to the GRF, the OA effectively reduced the GRF Information Technology Consolidation expense and equipment appropriation lapsed balance to $209. These payments are routinely made from the OA RATF appropriation because it funds operations of the centralized telephone billing system. In addition, according to OA management, beginning in fiscal year 2012, earnings from the unified communications system are credited to the newly created Revolving Information Technology Trust Fund, and quarterly finance payments of the unified communications system will be paid from the telephone billing system receipts. However, the first quarter 2012 finance payment was also made from the GRF.

The state does not have any guidance to determine if it is proper to make payments at year end from GRF appropriations for goods and services routinely purchased from agency dedicated funds.

Unified communications system telephones

In the last month of fiscal year 2010, the state made a payment from GRF appropriations for 1,537 telephones and network components for the unified communications system totaling approximately $393,000. These payments are routinely made from the OA RATF appropriation because it funds operations of the centralized telephone billing system. According to OA management, the telephones were not installed until September and October 2010, during fiscal year 2011.

The state does not have specific guidance to determine if it is proper to make payments at year end from GRF appropriations for goods and services routinely purchased from agency dedicated funds. In addition, the state does not have specific guidance to determine if it is proper to make payments at year end for equipment which will not be placed into service in a timely manner.

Lease payoff

A lease was paid off at the end of fiscal year 2011. OA management stated the payment was made because GRF monies were available.

In June 2011, the OA, Administrative Hearing Commission (AHC) made the decision to pay off its lease for unified communications telephones. A payment of $4,738 was processed on June 23, 2011, seven days prior to the end of the year. The payment included both the May monthly service charges for the telephones, as well as the lease payoff of approximately $4,000. According to an email between OA, ITSD employees and an OA, AHC employee, the monthly lease payments would have continued for an additional 72 months if the lease was not paid off at this time. It appears the OA, AHC realized no interest savings by paying off this lease early.

While this amount is small compared to other examples in our report, it shows that even an agency with a small operating budget makes an effort to find ways to expend remaining funds at year end.

The state does not have specific guidance to determine if it is proper to make payments early (before they are due) to use appropriations before they lapse. This practice allows an agency to use funds remaining at the end of the year, thereby potentially increasing available funds in future years for other purposes.

OSCA significant year end purchase

We noted the following instance of significant year end spending at the Office of State Courts Administrator (OSCA).

Network data line charges

The OSCA paid for recurring network data line charges that were not incurred until the subsequent fiscal year.

In both fiscal years 2011 and 2010, the OSCA paid for various network data line charges of Missouri's courts system that related to subsequent fiscal years. In June 2011, the OSCA paid approximately $96,000 for July 2011 data line charges (fiscal year 2012). In June 2010, the OSCA paid approximately $231,000 for July and August 2011 data line charges (fiscal year 2011). The OSCA data line charges contract states payments will only be made in arrears, thus advance payments are not allowed. In addition, while data line charges were typically allocated between the GRF and the Court Automation Fund, the August charges were paid entirely from the GRF.

OSCA management indicated because of looming budget issues, paying for the monthly charges in advance was the most beneficial course of action. OSCA management was expecting a reduction in the 2011 court automation budget of over $1 million; therefore, there was a strong possibility that funding might not be available in fiscal year 2011 to make the July and August 2010 payments. As a result, the OSCA made the July and August

2010 payments with fiscal year 2010 funds. OSCA management further indicated an additional $1 million withhold was requested for fiscal year 2012. Thus, not knowing the impact this may have to court automation and the vital nature of data lines to the operation of all courts in Missouri, OSCA management stated the July 2011 payment was made with fiscal year 2011 funds because the funding was available.

The state does not have specific guidance to determine if it is proper to make payments early (before they are due) to use appropriations before they lapse. This practice allows an agency to use funds remaining at the end of the year, thereby potentially increasing available funds in future years for other purposes.

DMH significant year end purchase

We noted the following instance of significant year end spending at the Department of Mental Health (DMH).

Commercial loan payoff

In June 2011, the DMH made the decision to pay off a commercial loan for transcription equipment and a document management system to create medical record documents at the Fulton State Hospital (FSH). The 5-year loan originated in March 2011 after the system became operational, with the total cost to be financed of $136,881. Quarterly payments were required, with the first payment due on May 1, 2011, and the final payment due on February 1, 2016. Prior to this payoff, the DMH had made its first payment of $6,748 in April 2011, thereby reducing the balance owed to $130,408. According to DMH management, the $130,408 payoff occurred because funds became available and it was deemed in the best interest of the state to pay the loan off early.

DMH management stated the purchase was necessary to replace the old hardware and software system that was obsolete, and the decision to acquire a replacement system was made in calendar year 2010. DMH management also stated that prior to fiscal year 2011, the FSH had begun each year with unpaid bills from the previous year due to the demands of operating beyond the hospital's funded bed capacity. Given the budget history of the facility, DMH management indicated a lease/purchase was the only feasible path to fund the replacement. However, after this purchase decision was made, inpatient redesign was announced and implemented at the facility which downsized the facility's staff and number of beds, generating savings that could be used to eliminate the debt.

As a result, the DMH paid off the 5-year loan 3 months after the loan originated and during the same fiscal year in which the loan began. While the early payoff avoided interest costs of $7,729 on future payments, the loan payoff did not have to be made from the current year appropriation.

The state does not have specific guidance to determine if it is proper to make payments early (before they are due) to use appropriations before they lapse. This practices allows an agency to use funds remaining at the end of the year, thereby potentially increasing available funds in future years for other purposes.

DOR significant year end purchases

We noted the following instances of significant year end spending at the Department of Revenue (DOR).

Held check

Our review identified an instance where the DOR held a check issued on June 24, 2011, totaling $85,458 ($50,986 from GRF appropriations), for various hardware components related to an upgrade of the Transaction Management System software. However, the hardware components were not delivered and installed until September 2011, and the check was released to the vendor the following day. Therefore, the payment should not have been from fiscal year 2011 appropriations.

According to DOR personnel, the project was approved during early calendar year 2011, with the vendor anticipating delivery of the hardware components during fiscal year 2011. DOR personnel stated there was a delay in delivering the hardware due to the vendor's other contract commitments, resulting in the hardware not being delivered and installed until September 29, 2011, and the check being released the following day. The vendor invoice was dated June 24, 2011, three months prior to the completion of the project.

The OA's 1 CSR 10-3.030(2)(J) does not allow advance payment of goods or services not yet received. In addition, 1 CSR 10-3.010(3)(B) states claims for services provided in the next fiscal year cannot be charged to the prior year appropriation. Each CSR includes exceptions to these requirements, including when payment in advance is the normal business practice, such as for subscriptions, registrations, memberships, insurance, postage, maintenance agreements, and building or parking rentals, or if required as a condition of the sale or by contract. However, this payment does not fall within the exceptions allowing advance payment of goods or services. Because the revised expected completion date of delivery and installation of the hardware components was not until September 29, 2011, the invoice should not have been paid from fiscal year 2011 appropriations.

Postage

The DOR purchased significant amounts of postage at year end. For our review of year end postage purchases, we considered whether they were necessary to maintain normal inventory levels so DOR mailing operations were not disrupted.

DOR personnel indicated the year end postage purchases were made to maintain an adequate level of postage inventory on hand for the remainder of the fiscal year, as well as for the time period in July of the subsequent fiscal year when the SAM II system would not be available to make additional purchases. However, examples of excessive postage purchases which resulted in higher than normal levels include:

- Postage on hand in the Reserve Account prior to the last two purchases of fiscal year 2011 was approximately $33,000. On June 21 and June 28, 2011, postage totaling $573,000 was purchased increasing postage levels to over $600,000 at June 30, 2011. The DOR used $330,000 in postage during the month of July 2011 and made no purchases of postage that month. However, at July 30, 2011, over $276,000 in postage remained. Thus the DOR subsidized postage usage for the entire month of July 2011 and into August 2011 with these two year end purchases.

- Postage on hand in the Reserve account prior to the last purchase of fiscal year 2010 was approximately $39,000. On June 28, 2010, postage of approximately $188,000 was purchased increasing postage levels to over $220,000 at June 30, 2010. The DOR used $130,000 in postage between July 1 and July 10, 2010. Taking into consideration the $39,000 on hand in the account without the last year end purchase, only approximately $81,000 of the $188,000 purchased at year end appeared necessary. Thus approximately $107,000 in unneeded postage was purchased at the end of fiscal year 2010. This excess postage covered postage usage in this account until July 20, 2010, at which time an additional $300,000 in postage was purchased.

- Postage on hand in a United States Postal Account prior to the last purchase of fiscal year 2011 was approximately $175,000. An additional $250,000 was purchased on June 16, 2011, increasing the balance in this account to approximately $425,000. The DOR used only about $153,000 in postage between June 17, 2011, and July 29, 2011. Thus, the $175,000 on hand prior to the June 16, 2011, purchase was adequate to cover the postage needs of this account for the remainder of June 2011 and the entire month of July 2011, and the $250,000 purchase was unnecessary.

The state does not have specific guidance to determine whether it is proper to purchase inventory items at year end that will result in higher than normal inventory levels.

Cigarette stamps

The DOR purchased significant amounts of cigarette tax stamps at year end. For our review of these purchases, we considered whether the year end purchases were necessary to maintain normal inventory levels so DOR operations were not disrupted.

Pursuant to Section 149.015, RSMo, a tax is levied upon the sale of cigarettes in the state of Missouri. Additional taxes are levied upon the sale of cigarettes within the City of St. Louis and Jackson County. Every vendor engaged in the business of selling cigarettes in the state of Missouri must pay the tax and receives in exchange cigarette tax stamps, furnished by the DOR, which are affixed to the cigarette packages as proof of payment. All cigarette packages must be stamped before being sold in the state.

DOR personnel indicated the year end purchase was made to replenish cigarette tax stamps sold during the year. We examined inventory levels at year end compared to purchases made and inventory sold throughout fiscal years 2010 and 2011, and noted higher than normal inventory levels existed due to the year end purchases.

The DOR purchased cigarette tax stamps costing approximately $248,000 at the end of the fiscal year 2010 with the intent to sell the stamps the following fiscal year. This purchase resulted in cigarette tax stamp inventory levels as of June 30, 2010, being higher than the amount of stamps sold during fiscal year 2010 for most stamp types. A similar situation occurred in fiscal year 2011, with the DOR purchasing cigarette tax stamps costing approximately $324,000 in June 2011.

The state does not have specific guidance to determine if it is proper to purchase inventory items at year end that will result in higher than normal inventory levels.

Conclusion

State agencies appear to make an effort toward the end of the year to identify remaining GRF appropriations and use those available funds instead of allowing them to lapse. Some agency personnel claim this is the result of fiscal constraints due to the state's economic crisis and the potential for Governor's withholdings. This practice also occurs because the state does not have laws, rules, policies, or procedures directly related to appropriate use of spending authority remaining toward year end and does not have internal controls to ensure year end purchases are made in accordance with sound financial and management practices. Absent such controls, the audit identified examples of purchases made at the end of the year that 1) were expedited and paid before due, 2) resulted in higher than normal inventory levels, 3) were charged to the state's general fund instead of agency controlled dedicated funds, and 4) were not placed into service in a timely manner. The state should consider implementing additional controls to ensure agencies make sound financial and management decisions regarding items or services purchased at year end.

Recommendations

The OA consider legislation, regulations, policies or procedures to provide guidance to state agencies on the proper use of GRF appropriations at year end. In addition, the OA should consider implementing additional controls to ensure year end purchases are made in accordance with sound financial and management practices. At a minimum, the guidance should address expediting payments before due, higher than normal inventory levels, the usage of the state's general fund instead of agency controlled dedicated funds, and items not placed into service in a timely manner.

Auditee's Response

After an audit of year end spending practices of four departments covering a two year period, the audit "did not identify instances of wasteful spending." In fact, it was found that "the agencies had a legitimate need for the items or services reviewed." As noted in the audit, there are legitimate reasons for year end spending by departments, including the need to delay spending to manage agencies' budgets to determine what funds, if any, will be accessible for the remainder of the fiscal year.

There are good reasons for increased year end spending that demonstrate prudent financial management. An example referenced repeatedly in the audit is the payment of outstanding obligations. OA is supportive of reducing interest costs at any time and supportive of reducing the balance of outstanding obligations if possible. This activity is consistent with Missouri's conservative approach to financing and the State's AAA bond rating.

OA will continue to monitor and will consider the audit findings and recommendations regarding year end spending practices in conjunction with existing laws, regulations, and policies that provide meaningful guidance related to the expenditure of state funds.

Appendix A-1

Year End Spending
Department of Corrections Object Codes - 2 Years Ended June 30, 2011

Year Ended June 30, 2011			Year Ended June 30, 2010		
Object Code Description	May and June Expenditures	Percent of May and June Expenditures	Object Code Description	May and June Expenditures	Percent of May and June Expenditures
Non mainframe software consulting and development	498,000	100%	Other medical and laboratory equipment	87,430	100%
Non mainframe computer software	133,377	100%	Major building/facility repair services	66,380	100%
Site improvements	67,409	100%	Other electronic and photographic equipment	277,282	99%
Computer software maintenance, licenses, and subscription fees	51,904	99%	Vehicles	555,365	93%
			Organization memberships	42,554	85%
Other fixed assets	560,739	98%	Other assistance payments	109,500	75%
Laundry equipment	171,683	97%	Vehicle leases, capital	340,513	74%
Law enforcement equipment	105,290	95%	Other specific use equipment	74,366	70%
Other electronic and photographic equipment	140,094	93%	Medical and dental equipment	61,828	70%
Organization memberships	42,924	92%	Lab and medical equipment repair and maintenance	38,285	70%
Other specific use equipment	196,126	86%	Electrical supplies	83,228	66%
Office equipment	63,452	85%	Photographic equipment	61,708	64%
Other motorized equipment	55,408	85%	Other fixed assets	146,483	59%
Other assistance benefits	108,250	82%	Agriculture/grounds maintenance-non automotive	39,548	59%
Vehicles	33,190	80%	Communication equipment leases, capital	138,411	56%
Food service equipment	462,057	78%	Reproduction and printing equipment	78,878	53%
Medical and dental equipment	85,100	72%	Under threshold-other equipment	419,613	53%
Other equipment repair and maintenance	16,576	69%	Food service equipment	342,078	50%
Under threshold-other equipment	907,642	68%	Publications and subscriptions	18,416	48%
Clothing supplies	739,933	61%	Other specific use supplies	453,700	47%
Electronic equipment	105,758	60%	Uniforms and clothing	357,631	42%
Agriculture/grounds maintenance-non automotive	27,048	58%	Other laboratory and medical supplies	141,332	39%
Personal care supplies	199,861	57%	Building repair supplies	16,990	36%
Reproduction and printing equipment	40,492	51%	Office equipment	21,496	35%
Other laboratory and medical supplies	185,516	51%	Agriculture/grounds supplies	43,149	34%
Uniforms and clothing	222,171	47%	Printing and binding services	29,322	34%
Other residential supplies	57,540	45%	Under threshold-office equipment and furniture	73,650	33%
Under threshold-office equipment and furniture	127,611	44%	Telecommunication supplies	12,141	32%
Laboratory equipment	57,327	43%	Project management fees	9,793	31%
Education supplies	27,377	43%	Communication equipment repair and maintenance	143,782	30%
Meeting room/exhibit space rentals	11,067	43%	Custodial supplies	831,048	30%
Building repair supplies	51,569	43%	Clothing supplies	771,509	29%

Appendix A-1

Year End Spending
Department of Corrections Object Codes - 2 Years Ended June 30, 2011

Year Ended June 30, 2011		
Object Code Description	May and June Expenditures	Percent of May and June Expenditures
Recreational vehicles	13,957	43%
Specific use equipment repair and maintenance	57,166	39%
Convention, conference, and training fees	37,376	38%
Law enforcement supplies	136,455	38%
Printing and binding services	26,337	36%
Laundry and linen supplies	169,496	36%
Custodial supplies	701,031	35%
Publications and subscriptions	12,235	34%
Food service supplies	400,303	34%
Mechanical supplies	39,529	33%
Agriculture/grounds equipment	21,975	33%
Express and freight services	37,099	33%
Other specific use supplies	301,228	32%
Security services	10,184	27%
Other repair and maintenance supplies	35,271	27%
Laboratory and medical equipment repair and maintenance	17,444	26%
Food services	29,997	26%
Vehicle repair supplies	81,358	26%
Medical and dental supplies	72,533	25%

Year Ended June 30, 2010		
Object Code Description	May and June Expenditures	Percent of May and June Expenditures
Food service supplies	276,631	27%
Security services	9,444	27%
Law enforcement supplies	113,811	27%
Food services	87,815	26%
Mailing services	19,674	25%
Office furniture and equipment rentals	15,386	25%

Appendix A-2

Year End Spending
Office of Administration Object Codes - 2 Years Ended June 30, 2011

Year Ended June 30, 2011

Object Code Description	May and June Expenditures	Percent of May and June Expenditures
Communication equipment repair and maintenance	1,801,487	100%
Photographic services	27,476	100%
Educational services	32,200	99%
Under threshold-computer equipment	885,930	93%
Non mainframe computer software	72,150	87%
Other business services	22,325	82%
Under threshold-office equipment and furniture	36,765	54%
Non mainframe computer equipment leases, capital	431,410	53%
Information technology outsourcing	11,623	52%
Non-mainframe computer equipment over threshold	43,246	47%
Under threshold-non mainframe computer software	84,866	42%
Professional court services	18,677	41%
Organization memberships	16,920	34%
Leasehold improvements, operating	28,290	29%
Non mainframe software consulting and development	321,846	28%
Telecommunication charges	75,033	27%
Computer software maintenance, license and subscription	1,047,738	27%
Program reimbursements	747,896	26%

Year Ended June 30, 2010

Object Code Description	May and June Expenditures	Percent of May and June Expenditures
Mainframe computer equipment leases, capital	288,000	100%
Program consultant services	24,897	100%
Under threshold-office equipment and furniture	400,474	95%
Other miscellaneous expense	20,928	86%
Non mainframe computer equipment over threshold	777,985	84%
Information technology network and communication equipment over threshold	71,717	76%
Computer software maintenance, license and subscription	2,199,155	50%
Information technology consulting and services	844,424	49%
Under threshold-non mainframe computer software	83,024	37%
Under threshold-computer equipment	284,431	36%
Major building/facility repair services	73,580	33%
Non mainframe computer software	22,657	32%
Inmate, patient, and student payments	25,039	32%
Office supplies	39,033	28%
Information technology support	42,012	26%

Appendix A-3

Year End Spending

Department of Mental Health Object Codes - 2 Years Ended June 30, 2011

Year Ended June 30, 2011

Object Code Description	May and June Expenditures	Percent of May and June Expenditures
Communication equipment leases, capital	130,408	95%
Electronic equipment	16,037	74%
Reproduction and printing equipment	44,349	66%
Medical and dental equipment	12,609	48%
Under threshold-office equipment and furniture	42,841	47%
Custodial equipment	10,667	47%
Other professional services	10,603,353	46%
Minor repair, maintenance, and improvement services	16,354	38%
Food services	241,138	37%
Food service equipment	34,672	37%
Specific use equipment repair and maintenance	31,158	36%
Under threshold-other equipment	177,427	35%
Other health services	6,140,000	34%
Other repair and maintenance supplies	19,794	32%
Other specific use supplies	35,511	32%
Advertising services	25,779	32%
Building repair supplies	44,534	31%
Convention, conference, and training fees	14,375	28%
Law enforcement equipment	16,172	28%
Uniforms and clothing	5,597	26%
Rehabilitative services	20,077	25%
Recreational supplies	13,818	25%

Year Ended June 30, 2010

Object Code Description	May and June Expenditures	Percent of May and June Expenditures
Network circuit line charges	31,275	97%
Architectural and engineering services	126,811	76%
Food service equipment	19,508	52%
Under threshold-office equipment and furniture	35,606	49%
Medical and dental equipment	15,042	48%
Education supplies	13,723	25%
Agency provided food	10,445	25%

Appendix A-4

Year End Spending
Department of Revenue Object Codes - 2 Years Ended June 30, 2011

Year Ended June 30, 2011

Object Code Description	May and June Expenditures	Percent of May and June Expenditures
Non mainframe computer software	148,728	100%
Office equipment	53,314	100%
State Data Center mainframe usage charges	22,889	100%
Under threshold-non mainframe computer software	34,884	96%
Other professional services	308,974	78%
Computer software maintenance, licenses, and subscription fees	64,205	64%
Printing and binding services	361,505	52%
Other equipment repair and maintenance	68,602	47%
Resale merchandise	1,095,923	42%
Leasehold improvements, operating	8,502	40%
Publications and subscriptions	20,942	36%
Postage	1,537,808	35%
Office supplies	107,877	34%
Appropriated transfers out	5,946,457	34%
Telecommunication charges	88,539	26%

Year Ended June 30, 2010

Object Code Description	May and June Expenditures	Percent of May and June Expenditures
Under threshold-non mainframe computer software	27,006	100%
Non mainframe computer equipment over threshold	20,745	100%
Under threshold-office equipment and furniture	18,175	65%
Office supplies	258,958	45%
Collection services	193,852	44%
Other equipment repair and maintenance	56,571	39%
Vehicles	14,039	33%
Resale merchandise	597,432	28%

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Year End Spending
Judiciary Object Codes - 2 Years Ended June 30, 2011

Year Ended June 30, 2011

Object Code Description	May and June Expenditures	Percent of May and June Expenditures
Vehicles	28,948	100%
Under threshold-computer equipment	901,388	97%
Non mainframe computer equipment over threshold	296,962	96%
Under threshold-office equipment and furniture	58,630	91%
Computer hardware repair and maintenance	835,257	85%
Organization memberships	160,479	78%
Under threshold-non mainframe computer software	41,570	69%
Postage	32,734	61%
Computer software maintenance, licenses, and subscription fees	643,086	46%
Convention, conference, and training fees	13,523	45%
Parking leases	45,790	39%
Office supplies	33,342	36%
Security services	22,449	34%
Office furniture and equipment repair and maintenance	9,077	30%
Network circuit line charges	329,992	27%
Telecommunication charges	8,873	26%
Library materials and supplies	119,409	25%
Collection services	303,500	25%

Year Ended June 30, 2010

Object Code Description	May and June Expenditures	Percent of May and June Expenditures
Information technology consulting and services	35,176	100%
Mainframe equipment over threshold	314,434	97%
Under threshold-non mainframe computer software	64,133	94%
Non mainframe computer equipment over threshold	65,818	82%
Leasehold improvements, operating	19,750	79%
Minor repair, maintenance, and improvement services	32,619	78%
Computer software maintenance, licenses, and subscription fees	849,112	65%
Organization memberships	67,584	57%
Computer hardware repair and maintenance	300,667	55%
Under threshold-computer equipment	55,510	53%
Under threshold-office equipment and furniture	22,417	47%
Printing and binding services	9,177	45%
Convention, conference, and training fees	14,896	44%
Security services	16,065	41%
Postage	30,416	40%
Library materials and supplies	103,862	38%
Network circuit line charges	437,325	35%
Other communication charges	14,400	33%
Parking leases	42,310	33%
Publications and subscriptions	93,012	30%
Office furniture and equipment repair and maintenance	10,480	30%
Office supplies	26,113	30%
Program reimbursements	60,677	25%