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Missouri State Auditor

ADMINISTRATION

Expenditures

May 2009

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YELLOW SHEET

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

May 2009

The following report is our audit of the Office of Administration, expenditures.

Improvements are needed to prevent duplicate payments and to ensure payments are timely and accurate. We scanned expenditure records having the same payment amount, same invoice number, same vendor number, or same /similar vendor name and identified ten duplicate payments. Of these duplicate payments, four had been resolved prior to the start of the audit by receiving a credit or refund from the vendor, and one had been resolved by the Office of Administration (OA) canceling the second payment prior to the vendor depositing the check. The remaining five duplicate payments had not been detected prior to the audit. Additional controls were implemented in September 2007 to identify and prevent duplicate payments. However, duplicate payments can still occur for a variety of reasons, including data entry errors, inconsistencies in the vendor file, untimely payments, or payments from non-original invoices such as duplicate vendor billing statements or copies. A review of 98 expenditures paid during fiscal year 2008 identified 23 invoices not processed for payment until at least 30 days after the invoice date, including 9 not processed within 60 days of the invoice date. An overpayment of $1,239 occurred because an invoice was not mathematically correct and the error was not detected.

Capital asset purchases and improvements were identified that had not been recorded, or were not recorded timely or accurately, in the capital asset records. ITSD personnel indicated they do not maintain records to track the location of sensitive assets that are under the capital asset threshold of $1,000. Since the ITSD has not been tracking such assets, the location of 58 computers with accessories totaling $38,673 (at an average price of $667) purchased in November 2006 for use within the agency was unknown. Although the individual price of these capital assets is under the threshold for recording such items, computers should be tracked according to the statewide Enterprise Architecture, which includes ITSD's standards, policies and guidelines.

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EXPENDITURES

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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, expenditures. For the purposes of this audit, we excluded expenditures related to personal services, debt service, and transfers. The scope of our audit included, but was not necessarily limited to, the years ended June 30, 2008, 2007, and 2006. The objectives of our audit were to:

1. Evaluate internal controls related to expenditures and procurement activities.

2. Evaluate 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, as well as certain external parties; inspection of capital assets; testing selected transactions; and reviewing documents such as contracts, plans, or 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, 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

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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, expenditures.

Susan Montee, JD, CPA
State Auditor

The following auditors participated in the preparation of this report:

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MANAGEMENT ADVISORY REPORT -
STATE AUDITOR'S FINDINGS

OFFICE OF ADMINISTRATION
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MANAGEMENT ADVISORY REPORT -
STATE AUDITOR'S FINDINGS

1. Expenditures

Improvements are needed to prevent duplicate payments and to ensure payments are timely and accurate. The following table identifies the expenditures considered during our review.

		Year Ended June 30,		
Description		2008	2007	2006
Travel, in-state	$	600,415	513,534	269,868
Travel, out-of-state		188,704	147,081	71,956
Fuel and utilities		47,243,555	6,366,900	4,700,576
Supplies		7,170,485	3,590,208	2,061,112
Professional development		1,213,379	917,310	306,806
Communication services and supplies		6,653,593	6,147,313	736,116
Services:				
Professional		102,559,503	78,836,875	31,031,848
Housekeeping and janitorial		3,569,371	2,770,240	1,929,526
Maintenance and repair		23,008,794	16,832,727	5,366,716
Equipment:				
Computer		19,902,663	21,179,684	2,635,597
Motorized		691,394	159,646	207,601
Office		911,612	441,139	181,471
Other		1,274,025	781,939	814,670
Property and improvements		7,809,009	8,164,512	13,635,796
Real property rentals and leases		4,360,734	2,894,134	2,795,881
Equipment rental and leases		9,131,013	9,561,946	9,792,552
Miscellaneous expenses		3,989,583	4,939,425	6,686,970
Rebillable expenses		38,635,199	35,821,126	36,676,358
Refunds		1,582,741	175,448	3,133,119
Program distributions		32,243,816	29,668,142	75,358,214
	$	312,739,588	229,909,329	198,392,753

Fluctuations in expenditures between 2008, 2007, and 2006 can be partially attributed to the following:

- Effective July 2006, Missouri's information technology consolidation initiative combined the staff and resources of various executive branch departments into the Office of Administration (OA) Information Technology Services Division (ITSD). This consolidation transferred the information technology budgets of most state departments to the OA, resulting in increased expenditures for technology related services, supplies, and equipment.

- Effective July 2006, appropriations for program distributions related to costs in criminal cases and juvenile court personnel were transferred to other state agencies.

- Effective July 2007, the OA Division of Facilities Management, Design and Construction (FMDC) assumed responsibility for maintenance operations at several state agencies resulting in the statewide consolidation of facility related services. This consolidation included the transfer of expense and equipment appropriations to FMDC for maintenance items and therefore the responsibility for payment of all associated vendor obligations. Expenditures for utilities and various supplies increased with this consolidation.

A total of 257 expenditures were selected for review. Criteria used to select individual expenditures for review included selecting items from expenditure classifications with significant fluctuations between fiscal years. We also reviewed for potential duplicate payments by scanning expenditure records for transactions having the same payment amount, same invoice number, same vendor number, or same/similar vendor names.

A. Ten duplicate payments were identified during our audit. Of these duplicate payments, four had been resolved prior to the start of the audit by receiving a credit or refund from the vendor, and one had been resolved by the OA canceling the second payment prior to the vendor depositing the check. The remaining five duplicate payments had not been detected prior to the audit. These duplicate payments are as follows:

- $155 paid on April 6, 2006, and June 6, 2006, for printing services.
- $131 paid on August 15, 2006, and September 28, 2006, for supplies.
- $1,441 paid on January 17, 2007, and January 24, 2007, for vehicle repairs.
- $125 paid on February 14, 2007, and February 22, 2007, for computer maintenance.
- $236 paid on November 5, 2007, and November 21, 2007, for supplies.

We discussed these five duplicate payments with OA personnel. After OA contacted the vendor, a credit or refund was received from the vendor for four of the duplicate payments. A credit or refund was not received for the $131 duplicate payment. This vendor indicated since its accounting system and employees have changed since 2006, it can no longer retrieve old records and would not issue a refund or credit based solely on the state's records.

Expenditure transactions are processed using the Statewide Advantage for Missouri (SAM II) system. Within SAM II, a vendor may have several vendor numbers. For example, a vendor may have multiple locations referred to as alternate addresses and may require more than one SAM II vendor number. Records for vendors having alternate addresses have the same vendor number as the original vendor, except for the last two digits, which are the alternate address indicators. Vendors could have multiple vendor numbers for other reasons as well, including errors in the system.

Additional controls were implemented in September 2007 to identify and prevent duplicate payments. However, duplicate payments can still occur for a variety of reasons, including data entry errors, inconsistencies in the vendor file, untimely payments, or payments from non-original invoices such as duplicate vendor billing statements or copies. While improved controls have been implemented in the SAM II system, which should help prevent duplicate payments, additional procedures should be established to monitor for duplicate payments. Such procedures should include guidance and training on entering invoice numbers to decrease the potential for inconsistencies or errors in data entry.

B. A review of 98 expenditures paid during fiscal year 2008 identified 23 (23 percent) invoices not processed for payment until at least 30 days after the invoice date, including 9 not processed within 60 days of the invoice date. These delays may be due to untimely review, approval, or processing of the payments. Most of the errors identified were processed by the OA divisions of FMDC and ITSD.

Untimely payment could result in unnecessary late charges and duplicate payments.

C. An overpayment of $1,239 occurred because an invoice was not mathematically correct and the error was not detected. This invoice included daily charges for February 2006. The totaled billed was for 31 days; however, the invoice detail reports only 28 days for February. Because this overpayment occurred in 2006, refunding of the overpayment by the vendor is unlikely. Procedures should be established to ensure invoices are properly reviewed for mathematical accuracy.

Strong internal controls are necessary to ensure duplicate payments are not made and that all invoices are paid timely and accurately.

WE RECOMMEND the Office of Administration provide additional guidance and training to personnel to ensure invoices are properly entered in the SAM II system, processed timely, and reviewed for mathematical accuracy.

AUDITEE'S RESPONSE

We concur in part with this recommendation. We will clarify invoice format issues, however, we do not believe it is necessary to remind personnel to make payments timely and review invoices for accuracy; our staff does this on a daily basis.

2. Capital Assets

Capital asset purchases and improvements were identified that had not been recorded, or were not recorded timely or accurately, in the capital asset records. In addition, records should be developed to identify the location of all capital assets.

A. Some purchases and improvements were not recorded in the capital asset records and other purchases were not recorded timely or accurately.

1) A capital lease payment of $322,841 for 12 copiers was made in June 2006. One of these copiers had not been recorded in the capital asset records. In addition, the capital asset records indicated disposition dates for two of the copiers; however, OA personnel indicated these copiers had been refurbished and were still in use.

2) A temporary and movable handicap accessible ramp with railing costing $11,875, paid for in June 2006, had not been recorded in the capital asset records.

3) An improvement project to install new service gates at the Governor's Mansion costing $53,291, paid for in September 2007, had not been recorded in the capital asset records.

4) A test of 10 capital asset purchases identified 8 (80 percent) purchases had not been recorded in the capital asset records in a timely manner. Three of the purchases were not recorded in the capital asset records until more than 100 days after the acquisition date, including one purchase not recorded until 638 days after the acquisition date.

The Code of State Regulations (CSR), 15 CSR 40-2.031, requires state agencies to account for capital assets costing over $1,000. The failure to record capital assets, or to record capital assets accurately and timely, reduces the control and accountability over capital assets and increases the potential for loss, theft, or misuse of assets.

B. ITSD personnel indicated they do not maintain records to track the location of sensitive assets that are under the capital asset threshold of $1,000. Rule 15 CSR 40-2.031(6) requires departments identify sensitive assets that may be susceptible to theft or misuse, implement appropriate procedures for adequate control and perform annual inventories. ITSD personnel indicated they do not consider any capital assets under $1,000 to be sensitive assets.

Since the ITSD has not been tracking such assets, the location of 58 computers with accessories totaling $38,673 (at an average price of $667) purchased in November 2006 for use within the agency was unknown. ITSD personnel indicated they do not have any documentation of who the computers were assigned to or where they are located.

Although the individual price of these capital assets is under the threshold for recording such items, computers should be tracked according to the statewide Enterprise Architecture. The Enterprise Architecture includes standards, policies and guidelines established by the ITSD. The Enterprise Architecture is made up of several information technology domains, including domains dedicated to security and systems management. The domains define the principles which are needed to help ensure the appropriate level of protection for the state's information and technology assets. The architecture includes desktop and laptop computers as information technology equipment for which accurate inventory records should be maintained. These inventory records should include, at a minimum, the description, location, model and serial numbers of the assets.

WE RECOMMEND the Office of Administration:

A. Establish procedures to ensure all capital asset purchases are recorded accurately and timely in the capital asset records.

B. Develop records to identify the location of sensitive assets, including those items under the capitalization threshold, to ensure, at a minimum, all state assets can be located.

AUDITEE'S RESPONSE

A. We concur. OA has implemented controls to improve the timeliness and accuracy of recording capital assets.

B. Although sensitive assets under the capitalization threshold are not recorded in the statewide accounting system, the assets are tracked through the use of help desk software. Utilizing the help desk software, ITSD conducted an audit of the 58 computers (PCs) purchased for OA and identified the serial number of the equipment and verified the physical location. Similar audits will be conducted as needed for other under threshold equipment purchased by the ITSD.

AUDITOR'S COMMENT

B. We were not informed as to the existence of the help desk software until April 2009, after audit work had been completed and after we had been told there were no records to track under threshold computer assets. In addition, the asset documentation provided by OA did not include all of the mandatory information required by the Enterprise Architecture, including property or asset number and maintenance and warranty information. As a result, it is questionable whether the help desk software has served as an effective inventory record.

HISTORY AND ORGANIZATION

OFFICE OF ADMINISTRATION
EXPENDITURES
HISTORY AND ORGANIZATION

The Office of Administration 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. The following are the various responsibilities of the divisions.

1. The Division of Accounting provides central accounting and central payroll system services for state government, producing checks and electronic payments for state vendors and state employees. The division publishes annual financial reports, administers bond sales for the Board of Fund Commissioners, Board of Public Buildings, and Board of Unemployment Fund Financing, and administers the social security coverage for all employees of the state and its political subdivisions.

2. The Division of Budget and Planning analyzes budget policy issues and provides information to the commissioner, the governor's office, the general assembly, Missouri's congressional delegation, and state, local, and federal agencies. The division prepares the budget instructions, reviews agency budget requests, prepares the annual executive budget, analyzes economic and demographic conditions, forecasts state revenues, and conducts technical policy and program analyses. To assist in state government management, the division controls appropriation allotments, manages the automated state budget system, prepares legislative fiscal notes, reviews legislation, tracks agency performance measures, analyzes and develops policy options, and reviews federal issues and their impact on Missouri. The division compiles population estimates and projections, provides technical assistance during decennial reapportionment, and is Missouri's liaison to the United States Bureau of the Census.

3. The Division of Facilities Management, Design and Construction operates, maintains and manages state-owned office buildings and other structures at the seat of government and other locations within the state. The division oversees leased property for agencies statewide and is also responsible for design, construction, renovation and repair of state facilities. Review of all requests for appropriations for capital improvements also falls under the responsibilities of the division.

4. The Division of General Services provides essential support services to state departments and to the Office of Administration.

5. The mission of the Information Technology Services Division is to provide technology services and solutions to the state's departments and agencies so that they can efficiently and effectively serve the citizens of Missouri.

6. The Division of Personnel is responsible for the state's human resource management system and the Uniform Classification and Pay System, as established in the State Personnel Law (Chapter 36, RSMo).

7. The Division of Purchasing and Materials Management is responsible for the procurement of all state-required supplies, materials, equipment and professional or general services. Certain agencies (e.g. Missouri Department of Transportation) are considered exempt in some areas. The division executes procurement functions in accordance with applicable statutes by maximizing competition in the procurement process, conducting evaluations and negotiations as appropriate, and awarding contracts to the "lowest and best" bidders.

8. The Office of Supplier and Workforce Diversity (OSWD) assists and monitors state agencies in promoting and ensuring equal opportunity within state government through employment, provision of services, and operation of facilities. Under Executive Order 05-30, OSWD is responsible for assisting state agencies in promoting contracting and procurement opportunities for minority and women-owned businesses. In addition, OSWD continues to monitor the implementation of state employment practices to ensure that Missouri has a diversified and well balanced state workforce.

In addition, the Office of Administration provides administrative and/or budgetary oversight for various boards, councils, and commissions.

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 Office of Administration employed approximately 2,060 full and part-time employees as of June 30, 2008.