



OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

FINANCIAL AUDIT DIVISION REPORT

Office of Enterprise Technology

Federal Compliance Audit

Year Ended June 30, 2008

March 26, 2009

Report 09-12

FINANCIAL AUDIT DIVISION

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OFFICE OF THE LEGISLATIVE AUDITOR

State of Minnesota • James Nobles, Legislative Auditor

March 26, 2009

Senator Ann H. Rest, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Gopal Khanna, Chief Information Officer
Office of Enterprise Technology

This report presents the results of our audit of fiscal year 2008 billing rates for the Enterprise Technologies Internal Service Fund for compliance with federal requirements. We conducted this audit as part of our audit of the state's compliance with federal program requirements. We emphasize that this has not been a comprehensive audit of the Office of Enterprise Technology.

We discussed the results of the audit with office staff at an exit conference on March 12, 2009. This audit was conducted by Jim Riebe, CPA, (Audit Manager) and Laura Peterson, CPA, CISA (Auditor-in-Charge), assisted by auditor Bridgette Leonard.

This report is intended for the information and use of the Legislative Audit Commission and the management of the Office of Enterprise Technology. This restriction is not intended to limit the distribution of this report, which was released as a public document on March 26, 2009.

We received the full cooperation of department staff while performing this audit.

/s/ James R. Nobles

James R. Nobles
Legislative Auditor

/s/ Cecile M. Ferkul

Cecile M. Ferkul, CPA, CISA
Deputy Legislative Auditor

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Report Summary

Conclusion

The Office of Enterprise Technology generally complied with and had controls to ensure compliance with federal allowable cost principles applicable to its administration of the Enterprise Technologies Internal Service Fund for fiscal year 2008. However, the department had an error in its calculation of excess retained earnings.

Finding

The Office of Enterprise Technology did not accurately calculate the Enterprise Technologies Internal Service Fund's excess retained earnings. ([Finding 1, page 5](#))

Audit Objective and Scope

The objective of our audit was to determine whether the Office of Enterprise Technology complied with federal allowable cost principles in its administration of the Enterprise Technologies Internal Service Fund for fiscal year 2008.

Office of Enterprise Technology

Federal Program Overview

The Office of Enterprise Technology manages statewide communication and information systems for state agencies. The office bills state agencies for the technology services provided. It accounts for the systems costs and state agency reimbursements in the state's Enterprise Technologies Internal Service Fund. Fiscal year 2008 revenues totaled \$81.6 million, including approximately \$10 million from federal funds.

Federal regulations require the Office of Enterprise Technology to comply with certain provisions related to the billing rates used to charge federal awards and limitations on accumulations of retained earnings.

Objective, Scope, and Methodology

The objective of our audit was to determine whether the Office of Enterprise Technology complied with federal allowable cost principles in its administration of the Enterprise Technologies Internal Service Fund for fiscal year 2008. This audit is part of our broader federal single audit objective to obtain reasonable assurance about whether the State of Minnesota complied with the types of compliance requirements that are applicable to each of its federal programs.¹

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States of America and with the U.S. Office of Management and Budget's *Circular A-133 Compliance Supplement*.

¹ The State of Minnesota's single audit is an entity audit of the state that includes both the financial statements and the expenditures of federal awards by all state agencies. We issued an unqualified audit opinion, dated December 9, 2008, on the State of Minnesota's basic financial statements for the year ended June 30, 2008. In accordance with *Government Auditing Standards*, we also issued our report, dated December 9, 2008, on our consideration of the State of Minnesota's internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts, and grants. (Office of the Legislative Auditor's Financial Audit Division Report 09-03, *Report on Internal Control Over Financial Reporting*, issued February 13, 2009.)

Conclusions

The Office of Enterprise Technology generally complied with and had controls to ensure compliance with federal allowable cost principles applicable to its administration of the Enterprise Technologies Internal Service Fund for fiscal year 2008. However, the department had an error in its calculation of excess retained earnings, as noted in the following *Finding and Recommendation* section.

We have reported this weakness to the federal government in the *Minnesota Financial and Compliance Report of Federally Assisted Programs*, prepared by the Department of Finance. This report provides the federal government with information about the state's use of federal funds and its compliance with federal program requirements. The report includes the results of our audit work, conclusions on the state's internal controls over and compliance with federal programs, and findings about control and compliance weaknesses.

Finding and Recommendation

The Office of Enterprise Technology did not accurately calculate the Enterprise Technologies Internal Service Fund's excess retained earnings.

Finding 1

The Office of Enterprise Technology inadvertently understated the Enterprise Technologies Internal Service Fund's excess retained earnings at June 30, 2007. The office erroneously double-counted a \$2.7 million refund to the federal government when it calculated excess retained earnings for the fund. The department used the June 30, 2007, retained earnings balance as part of its calculation to verify that the fund had not accumulated retained earnings in excess of federal limitations. The refund to the federal government resulted in some unique accounting implications that the Office of Enterprise Technology had not anticipated in the process it used to calculate excess retained earnings.

Federal regulations require that retained earnings in an internal service fund may not exceed 60 days of working capital.² This limitation provides assurance to the federal government that the fund did not accumulate excess balances by overcharging for services paid from federal funds. By understating the excess retained earnings calculation due to the error, the Office of Enterprise Technology increased the risk of noncompliance with this provision. However, the error did not cause the fund to exceed the 60-day working capital limit.

Recommendation

- *The Office of Enterprise Technology should ensure it accurately accounts for potential repayments due to the federal government when calculating future excess retained earnings for the Enterprise Technologies Internal Service Fund.*

² Office of Management and Budget Circular A-87, Attachment C, G.2.



March 18, 2009

James R. Nobles, Legislative Auditor
Office of Legislative Auditor
Centennial Office Building, Room 140
658 Cedar Street, St. Paul, Minnesota 55155-1603

Dear Mr. Nobles:

Below are the finding and recommendation from your recent Fiscal Year 2008 federal compliance audit of the billing rates and retained earnings for the Enterprise Technologies Internal Service Fund, as part of the state's annual single audit of federal funds.

Finding 1: The Office of Enterprise Technology did not accurately calculate the Enterprise Technologies Internal Service Fund's excess retained earnings.

The Office of Enterprise Technology inadvertently understated the Enterprise Technologies Internal Service Fund's excess retained earnings at June 30, 2007. The office erroneously double-counted a \$2.7 million refund to the federal government when it calculated excess retained earnings for the fund. The department used the June 30, 2007, retained earnings balance as part of its calculation to verify that the fund had not accumulated retained earnings in excess of federal limitations. The refund to the federal government resulted in some unique accounting implications that the Office of Enterprise Technology had not anticipated in the process it used to calculate excess retained earnings.

- Recommendation: *The Office of Enterprise Technology should ensure it accurately accounts for potential repayments due to the federal government when calculating future excess retained earnings for the Enterprise Technologies Internal Service Fund.*

Person Responsible for resolving the finding: Julie Freeman, Financial Management Director, OET, (651) 201-1191

Status of Finding: This audit finding has been fully corrected.

Explanation of Corrective Action Taken: Based on the unusual circumstances and unique accounting implications, OET redesigned the SWCAP form and processes used for reporting excess retained earnings to ensure compliance with the requirements of the Office of Management and Budget Circular A-87 Cost Principles for State, Local and Indian Tribal Governments. The form redesign ensured that this type of unusual circumstance was accommodated in its reporting processes for Fiscal Year 2007 and moving forward in the event the unique accounting implications presented themselves again. The redesign also ensured continued balance with the state CAFR, while reporting the excess retained earnings correctly through an adjustment column for unallowable costs. These changes were proactively reviewed with Minnesota Management and Budget, Financial Reporting and Indirect Cost Analysis, to ensure concurrence with the approach. At the time of the audit meeting, this finding was fully corrected.

State of Minnesota Office of Enterprise Technology
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James R. Nobles

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If you have any questions, please feel free to contact Larry Freund, Chief Financial Officer, Office of Enterprise Technology at 651.556.8028 or larry.freund@state.mn.us or Julie Freeman, Financial Management Director, Office of Enterprise Technology at 651.201.1191 or Julie.freeman@state.mn.us.

Sincerely,

/s/ Gopal Khanna

Gopal Khanna, State Chief Information Officer
Office of Enterprise Technology

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