



**OFFICE OF THE LEGISLATIVE AUDITOR**  
STATE OF MINNESOTA

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**FINANCIAL AUDIT DIVISION REPORT**

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**Department of  
Management and Budget**

**The State's Payment Processing**

**Internal Controls and  
Compliance Audit**

**April 24, 2015**

**Report 15-10**

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FINANCIAL AUDIT DIVISION

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## Financial Audit Division

The Financial Audit Division annually audits the state's financial statements and, on a rotating schedule, audits agencies in the executive and judicial branches of state government, three metropolitan agencies, and several "semi-state" organizations. The division has a staff of forty auditors, most of whom are CPAs. The division conducts audits in accordance with standards established by the American Institute of Certified Public Accountants and the Comptroller General of the United States.

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## Conclusion on Internal Controls

The Financial Audit Division bases its conclusion about an organization's internal controls on the number and nature of the control weaknesses we found in the audit. The three possible conclusions are as follows:

Conclusion	Characteristics
<b>Adequate</b>	<b>The organization designed and implemented internal controls that effectively managed the risks related to its financial operations.</b>
<b>Generally Adequate</b>	<b>With some exceptions, the organization designed and implemented internal controls that effectively managed the risks related to its financial operations.</b>
<b>Not Adequate</b>	<b>The organization had significant weaknesses in the design and/or implementation of its internal controls and, as a result, the organization was unable to effectively manage the risks related to its financial operations.</b>

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## OFFICE OF THE LEGISLATIVE AUDITOR

STATE OF MINNESOTA • James Nobles, Legislative Auditor

April 24, 2015

Representative Sondra Erickson, Chair  
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. Myron Frans, Commissioner  
Department of Management and Budget

This report presents the results of our audit that examined the state's payment process to determine whether it had adequate internal controls to ensure the authorization for actual payments and that those payments agreed to information recorded in the state's accounting system, such as the recipient's name, bank account information, and payment amount.

The audit was conducted by Kayla Borneman, CPA, (Auditor-in-Charge) and assisted by auditors Kelsey Nistler, CPA; Thom Derus, CISA; and Lori Leysen.

We received the full cooperation of the Department of Management and Budget and other state agency staff while performing this audit.

A handwritten signature in black ink, reading 'James R. Nobles'.

James R. Nobles  
Legislative Auditor

A handwritten signature in black ink, reading 'Cecile M. Ferkul'.

Cecile M. Ferkul, CPA, CISA  
Deputy Legislative Auditor



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# Report Summary

The state pays its employees and many of its vendors, benefit recipients, and grantees through an automated process using information from the state's payroll and accounting systems. For many of these payments, the state directs its bank to move money electronically from the state treasury bank account to a recipient's bank account. For other payments, the state prints and mails paper "warrants," which are similar to checks. In fiscal year 2014, these electronic and paper payments totaled about \$40 billion.

This audit examined the state's payment process to determine whether it had adequate internal controls to ensure the authorization for actual payments and that those payments agreed with information recorded in the state's accounting system (such as the recipient's name, bank account information, and payment amount). Without adequate internal controls, payment errors or unauthorized changes to the information could occur without detection.

## Conclusion

The state's internal controls over its payment process were generally adequate; however, there were some weaknesses, as explained in the findings.

## Findings

- Although the Department of Management and Budget had internal controls for its payment process that were generally adequate, the department did not adequately document who is responsible for certain payment process controls, how the controls are to be performed, and how department management will periodically review the consistent performance of the controls and evaluate the controls for effectiveness. ([Finding 1, page 7](#))
  - The Department of Management and Budget did not adequately monitor when authorized employees viewed or changed data files containing not public data. ([Finding 2, page 9](#))
  - The Department of Management and Budget did not sufficiently restrict employee access to some data files. This is a repeat finding. ([Finding 3, page 11](#))
  - The Department of Management and Budget did not adequately ensure that warrants were not lost or inappropriately diverted prior to mailing. ([Finding 4, page 12](#))
  - The Department of Management and Budget authorized some wire transfer transactions without adequate authorization from the requesting agency. ([Finding 5, page 13](#))
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# Department of Management and Budget

## Payment Process Overview

The State of Minnesota pays out about \$40 billion each fiscal year from the state's treasury to employees, vendors, benefit recipients, and grantees. Many of the state's payments start in the state's payroll and accounting systems,<sup>1</sup> through transactions entered by various state agencies and their subsystems.<sup>2</sup> In general, state agencies' processes for payroll, purchasing, benefits, and grants include steps to authorize payments, such as timesheet approvals, purchase authorizations, eligibility determinations, and grant agreements. The Department of Management and Budget uses information about payments authorized in the state's payroll and accounting systems to actually pay out money from the state treasury bank account to the recipients. This audit focused on this last step, the actual payment process.

The state makes payments to vendors and employees through the following methods:

- **Electronic Fund Transfers.** The state identified that it uses electronic fund transfers (EFTs) for about 90 percent of the payments initiated through the state's payroll and accounting systems. EFTs are the exchange or transfer of money electronically from one account to another account, either within the same bank or between different banks. There are two types of EFT transactions:
  1. **Automated Clearing House.**<sup>3</sup> The state uses the Automated Clearing House (ACH) for most of its electronic payments. It uses ACH to electronically pay batches of similar transactions (such as the state's payroll transactions). The ACH process moves money electronically between the state treasury bank account and multiple recipients' bank accounts. When processing ACH payments, either the Department of Management and Budget or another state agency electronically transmits the detailed batch payment information to the bank. The

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<sup>1</sup> For a few payment processes, such as the payment processes for unemployment benefits paid by the Department of Employment and Economic Development, and food and cash assistance benefits paid by the Department of Human Services, the state does not use the state's accounting system to generate payments. We did not include these other payment processes in the scope of this audit.

<sup>2</sup> Some state agencies have automated subsystems to handle the complexities of specific programs' operations. Many of these subsystems provide information through the state's accounting system for payment processing.

<sup>3</sup> The automated clearing house is a computer-based clearing and settlement network established to process the exchange of electronic transactions between participating banks.

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bank holds the information until it receives final approval from the Department of Management and Budget, then forwards the payment information to the automated clearing house. The clearing house moves the money from the state treasury into the recipients' bank accounts.

2. **Wire Transfers.** The state uses a wire transfer to move money electronically from the state treasury to a specific bank account. For most wire transfers, the bank requires two state approvals before moving the money. For wire transfers frequently made to the same recipients, the state uses a standard template and the bank requires only one state approval before moving the money. Although the state makes the payments electronically, the state's accounting system also produces paper warrants for most wire transfers. The Department of Management and Budget directs its staff to void warrants related to wire transfers so that duplicate payment cannot occur.
- **Paper Warrants.** The state identified that it uses paper warrants for about 10 percent of the payments made through the state's payroll and accounting systems. A "warrant" functions in the same way as a check, but it is payable on the state treasury rather than on an account held at a bank. The Department of Management and Budget provides a data file with payment information to the Department of Employment and Economic Development, where the warrants are printed. The Department of Administration oversees the process to mail the warrants to the recipients. Once a recipient deposits a warrant in their own bank account, their bank remits the warrant to either US Bank or Wells Fargo Bank which, in turn, remits the warrant to the state treasury for payment.

To be paid, recipients must provide the state with information, such as their name, address, and, for electronic payments, bank account information; some of this information is not public.

## **Objective, Scope, and Methodology**

The objective of our audit of the Department of Management and Budget's payment process was to answer the following question:

- Did the Department of Management and Budget have adequate internal controls to ensure that its payment process safeguarded state resources; complied with legal requirements and management authorizations; created reliable financial data; and protected not public information?
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To meet the audit objective, we took the following steps:

- We gained an understanding of the Department of Management and Budget's payment process. That process involves the Department of Employment and Economic Development to print the warrants and the Department of Administration to mail the warrants.
- We reviewed relevant statutory and policy requirements, banking contracts, interagency agreements and other documents.
- We considered the risk that errors or unauthorized transactions could occur without detection.
- We examined the security of data as it moved from the state's payroll and accounting systems to other entities for payment processing.
- We analyzed the fees the state paid to its bank (both directly and indirectly).
- We analyzed accounting data and bank transactions to identify unusual trends or significant changes.
- We selected a sample of payment transactions occurring during fiscal years 2013 and 2014 and reviewed supporting documentation to test whether the controls were effective and if the payments complied with laws, regulations, policies, and contract provisions.

In addition to state statutes and policies, we used the following guidance as our criteria to evaluate internal controls and information security controls:

- *Internal Control-Integrated Framework*, published by the Committee of Sponsoring Organizations of the Treadway Commission.<sup>4</sup>
- Special Publication 800-53, *Security and Privacy Controls for Federal Information Systems and Organizations*, published by the National Institute of Standards and Technology's Computer Security Division.

We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives.

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<sup>4</sup> The Treadway Commission and its Committee of Sponsoring Organizations were established in 1985 by the major national associations of accountants. One of their primary tasks was to identify the components of internal control that organizations should have in place to prevent inappropriate financial activity. The resulting *Internal Control-Integrated Framework* is the accepted accounting and auditing standard for internal control design and assessment.

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## Conclusion

The state's internal controls over its payment process were generally adequate; however there were some weaknesses, as explained in the findings.

The following *Findings and Recommendations* section further explains the exceptions noted above.

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## Findings and Recommendations

**Although the Department of Management and Budget had internal controls for its payment process that were generally adequate, the department did not adequately document who is responsible for certain payment process controls, how the controls are to be performed, and how department management will periodically review the consistent performance of the controls and evaluate the controls for effectiveness.**

### Finding 1

State statute requires the Department of Management and Budget to document “*internal control procedures over financial management activities, provide for analysis of risks, and provide for periodic evaluation of control procedures to satisfy the commissioner that these procedures are adequately designed, properly implemented, and functioning effectively.*”<sup>5</sup>

Executive branch policy reinforces the statute and requires state agencies to develop internal controls following the standards issued by the Committee of Sponsoring Organizations in its *Internal Control-Integrated Framework*.<sup>6</sup> Those standards identify internal controls as the policies and procedures management puts in place to address the risks in its operations. The framework states:

*“The extent of documentation of an entity’s internal control system varies with the entity’s size, complexity, and similar factors. Larger organizations usually have written policy manuals, formal organization charts, written job descriptions, operating instructions, information system flowcharts, and so forth.”*<sup>7</sup>

We found that the Department of Management and Budget had assessed risks related to its electronic payment processes and identified related internal controls; however, the department had not documented how to perform those internal controls, who was responsible to perform those internal controls, or how

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<sup>5</sup> *Minnesota Statutes* 2014, 16A.057.

<sup>6</sup> Department of Management and Budget executive branch policy 0102-01, *Internal Controls*. (In September 2014, the Department of Management and Budget decided to change the state executive branch’s standard for internal controls to the U.S. Government Accountability Office’s *Standards for Internal Control in the Federal Government*. Commonly called the “Green Book,” the federal standards adapt the *Internal Control-Integrated Framework* to a government, rather than corporate, setting.)

<sup>7</sup> The state’s new internal control standard (see footnote 6) requires management to identify, analyze, and respond to risks related to achieving its objectives and design and document its internal control activities that respond to the risks. The new standard requires that documentation be effective to establish and communicate the “who, what, when, where, and why” of the internal controls necessary for personnel to perform them.

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management would periodically review and assess the effectiveness of the internal controls to address the related risk.

For example, to address the risk that someone at an agency or within the department could transact a fraudulent wire transfer, the department identified two key internal controls:

1. Wire transfers require two treasury division signatures and dual authorization with the bank; and
2. The department's vendor payments unit would not authorize the wire transfer request if a paper warrant did not exist.

The department's documentation of these key internal controls did not identify some important information, such as:

- Whose signatures can authorize wire transfers?
- How is this authorization documented? Is there a specific form? Can it be in an email? How is the authorization retained?
- What steps should staff take if two signatures are not documented?
- Who within the vendor payments unit is responsible to verify that a paper warrant exists for each wire transfer?
- What steps should the vendor payments unit take if there is no paper warrant?
- What review does management do to ensure that all wire transfers are properly authorized?

Department management provided us with some additional documentation, such as employee position descriptions and informal procedural write-ups that included answers to some of these questions. However, it was unclear to us how the department had incorporated this information into the overall documentation of its internal control system.

Without adequate documentation about the design of the internal controls, and how they are to be performed and monitored, the department cannot ensure that staff perform internal control procedures consistently and know how to (1) report exceptions identified through the internal control procedures, and (2) take appropriate corrective action.

In addition, the department had not updated its risk assessment for the paper warrant payment process to reflect changes resulting from the state's implementation of the new accounting system in July 2011. The department plans to perform this risk assessment during fiscal year 2015.

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*Recommendation*

- *The Department of Management and Budget should review and adequately document the key internal controls related to the risks in its payment process to ensure that staff perform the internal control procedures consistently, and they know how to report exceptions identified through the internal control procedures and take appropriate corrective action.*

**The Department of Management and Budget did not adequately monitor when authorized employees viewed or changed data files containing not public data.****Finding 2**

The Department of Management and Budget had not adequately monitored employees' access to payment files on its network and mainframe files (including the payment files). The payment files are created from information on the state's payroll and accounting systems. Some payment files are used to process electronic payments; others are needed to print paper warrants.

The files are created initially on the department's network, are copied to the state's mainframe,<sup>8</sup> and then moved to the state's bank (to process the electronic payments) or to the Department of Employment and Economic Development's network (for paper warrant printing). At any point in this process, changes to the files could result in payment errors or payments that differed from those authorized through the state's payroll and accounting systems. Access to some of these files could also allow inappropriate use of some not public information, such as bank account numbers.

A common internal control to protect files from unauthorized changes is to record and review all access to the files and follow up on any access that may not be authorized. A federal security and privacy control framework, which the state uses as the foundation for its information technology standards, include, as key controls, the ability to monitor and generate reports about certain events, such as access to data files. The controls are most effective when the reports contain detailed information about what occurred, including the individuals associated with the event.<sup>9</sup> In addition, the federal security and privacy control framework directs that employees reviewing these types of reports should not be the same

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<sup>8</sup> The state's mainframe is a large computer operated by the Office of MN.IT Services to process large quantities of data and move data files between various state software applications.

<sup>9</sup> National Institute of Standards and Technology Special Publication 800-53 (Revision 4), *Security Controls and Assessment Procedures for Federal Information Systems and Organizations*, control AU-3 – Content of Audit Reports.

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employees who can perform the actions recorded on the reports.<sup>10</sup> Without this independence, the reviewer could be reviewing their own transactions, diminishing the value of the review to identify unusual activity requiring further investigation.

The department had the following weaknesses in its oversight of employee access to files on its network and mainframe, including the payment files:

- The department's report of employees who accessed files on its network did not identify employees who accessed payment files through the software application that created the files. Without this information, the department could not effectively determine whether the access to the file was authorized.
- The employees who received and reviewed certain monitoring reports were not independent because they also had access that would be recorded on the reports. In addition, these staff could change the criteria of what is included on the monitoring reports but also reviewed a different report used to monitor these changes to the criteria.
- The employee who was delegated the primary responsibility to review the report that monitors mainframe file access did not fully understand the information included on the report, reducing the effectiveness of the review. This employee began conducting the review in March 2014, after the prior reviewer changed job duties.

In addition, the Department of Management and Budget had not instructed the Department of Employment and Economic Development to record and review instances when employees<sup>11</sup> accessed the files while the files were on the Department of Employment and Economic Development's network. As a result, the Department of Employment and Economic Development did not record or review these events. Four user groups (consisting of 24 user accounts) could view or change the data files while the files were on the Department of Employment and Economic Development's network.<sup>12</sup>

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<sup>10</sup> National Institute of Standards and Technology Special Publication 800-53 (Revision 4), *Security Controls and Assessment Procedures for Federal Information Systems and Organizations*, control AC-5 – Separation of Duties. The document states that organizations should separate incompatible duties such as, “ensuring security personnel administering access control functions do not also administer audit functions.”

<sup>11</sup> Through the Department of Employment and Economic Development, some department employees had access to the data files, along with some employees of the Office of MN.IT Services, the state's consolidated information technology office.

<sup>12</sup> Department of Employment and Economic Development staff told us that the payment file is deleted from the network six months after they complete the warrant printing process.

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### *Recommendations*

- *The Department of Management and Budget should record user actions on the payment files at all locations the files reside on the systems.*
- *The Department of Management and Budget should ensure that records of user actions are reviewed by independent staff who are knowledgeable about the record contents.*

**The Department of Management and Budget did not sufficiently restrict employee access to some data files. This is a repeat finding.<sup>13</sup>**

## **Finding 3**

The department did not limit system access to some data files to the access necessary for users (employees and consultants) to conduct their job duties. The department had the following instances where users had unnecessary access:

- 115 users had unnecessary access to the data files through a software application that creates the files for electronic payments and warrant printing.<sup>14</sup> These files contained not public bank account information.
- 15 users had unnecessary access to the departments' networks and mainframe, where some files containing not public information reside.<sup>15</sup> Some users no longer needed the access due to changes in job duties or system processes; others had group access to certain files unnecessary to their duties.

The state's system security policy states that each agency must "limit individual employee access to only those systems, programs, applications, and data necessary for the individual to perform their job functions and responsibilities."<sup>16</sup> By allowing unnecessary access, the department increases the risk that unauthorized use of the data could occur.

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<sup>13</sup> Office of the Legislative Auditor, Financial Audit Division Report 10-24, *Department of Management and Budget - Banking and Vendor Controls*, (Finding 3) issued July 1, 2010.

<sup>14</sup> These users consisted of 43 Department of Management and Budget employees, 68 Office of MN.IT Services employees, and 4 consultants.

<sup>15</sup> These users consisted of 5 Department of Management and Budget employees, 3 Department of Employment and Economic Development employees, and 7 Office of MN.IT Services employees.

<sup>16</sup> Department of Management and Budget's executive branch policy number 1101-07, *Security and Access*.

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*Recommendation*

- *The Department of Management and Budget should restrict access to files containing not public data to the access necessary for employees and consultants to perform their duties.*

**Finding 4**

**The Department of Management and Budget did not adequately ensure that warrants were not lost or inappropriately diverted prior to mailing.**

Each day, as directed by the Department of Management and Budget, staff from the Department of Administration's central mail unit picks up (from the Department of Employment and Economic Development) the printed warrants. Central mail unit staff also receives each day (from the Department of Management and Budget) a daily count from the state's payroll and accounting systems of the number of warrants that should be mailed. The Department of Management and Budget provides this count so that central mail staff can ensure that no printed warrants that should be mailed are inappropriately diverted or lost.<sup>17</sup>

From July 2012 through July 2014, the Department of Administration had not fully reconciled the number of warrants it mailed to the warrant count provided by the Department of Management and Budget.

The department's guidance to state agencies about risk assessments and internal controls identifies reconciliations as an internal control that verifies the completeness, accuracy, authenticity, and/or validity of transactions.<sup>18</sup>

Reconciling the number of warrants mailed to the Department of Management and Budget's warrant count is a fundamental internal control to ensure that the Department of Administration receives and mails all warrants. Without this reconciliation, discrepancies between the number of warrants printed and the number that are mailed cannot be identified or investigated. Discrepancies could be due to errors in the printing or mailing processes, or the result of someone diverting a warrant for inappropriate use. In August 2014, after we informed the Department of Administration's staff of the weakness, they began performing the daily reconciliations.

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<sup>17</sup> Some warrants are not mailed through Department of Administration's central mail unit. Those warrants, called "pull" warrants, are printed by the Department of Employment and Economic Development in a separate batch and delivered to the Department of Management and Budget, which controls the warrant distribution.

<sup>18</sup> Department of Management and Budget's *Guide to Risk Assessment and Control Activities*, revised May 2014.

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In addition, the Department of Management and Budget was unaware that the Department of Administration's staff was not performing this key internal control. As part of its internal control framework, state policy requires the department to monitor whether key internal controls are performed as designed and effective to accomplish its purpose.

*Recommendation*

- *The Department of Management and Budget should monitor the Department of Administration's daily reconciliation of the warrants mailed to the warrant count to ensure it is performed as designed, and it is effective to accomplish its purpose.*

**The Department of Management and Budget authorized some wire transfer transactions without adequate authorization from the requesting agency.**

**Finding 5**

State agencies use the *Warrant Special Handling Request* form to document the authorization for a paper warrant to be "pulled" from the stack of printed warrants prior to mailing. Sometimes the reason for a warrant to be pulled is because the payment will be made through a wire transfer by the Department of Management and Budget. Agencies may also request that a warrant be pulled so that they can control the delivery of the payment. During fiscal years 2013 and 2014, the department processed thousands of warrant special handling requests.

The department had the following deficiencies in their documentation of warrant special handling request transactions:<sup>19</sup>

- We tested 22 warrant special handling requests for wire transfers. Of these, the department did not have evidence of appropriate authorization before it directed the state's bank to make the following two wire transfers:
  - The department processed a \$15,039,784 wire transfer without any agency signatures on the *Warrant Special Handling Request* form. Department staff told us they processed the wire transfer because it was a routine transaction, and they considered the lack of documented authorization to be an inadvertent oversight.

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<sup>19</sup> We do not think that any of these transactions were inappropriate, but that the documentation supporting the transactions was deficient.

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- The department processed a \$603,000 wire transfer with only one agency signature on the *Warrant Special Handling Request* form.<sup>20</sup>
- We tested 40 warrant special handling requests made by agencies to obtain warrants. One of these allowed a department to obtain four warrants totaling \$939,241 (needed to close on land acquisitions) with only one agency authorizing signature rather than two, as required.

Warrant special handling requests increase the risk of unauthorized or inappropriate payments because they deviate from the controls established in the normal payment process. To reduce the risk, state policy requires agencies to use the *Warrant Special Handling Request* form to document the authorization for these transactions.<sup>21</sup> The form requires signatures of two agency staff that have been designated by agency management to authorize pull warrants.

#### *Recommendation*

- *The department should ensure that it has appropriate and adequate authorization from state agencies before it processes wire transfer transactions.*

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<sup>20</sup> The *Warrant Special Handling Request* form did have a second signature, but it was the signature of an employee from the Department of Management and Budget, not from an employee of the agency requesting the wire transfer.

<sup>21</sup> Department of Management and Budget executive branch policy 0803-02.

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April 20, 2015

James R. Nobles, Legislative Auditor  
Office of the Legislative Auditor  
658 Cedar Street, Suite 140  
St. Paul, Minnesota 55155

Dear Mr. Nobles:

Thank you for the opportunity to respond to the findings and recommendations related to the audit of the State's Payment Processing. We are pleased that the audit found the state's internal controls over its payment processes to be generally adequate. We value strong internal controls and appreciate suggestions that can make our processes even stronger. Below is the department's response to the findings and recommendations.

**Finding 1: Although the Department of Management and Budget had internal controls for its payment process that were generally adequate, the department did not adequately document who is responsible for certain payment process controls, how the controls are to be performed, and how department management will periodically review the consistent performance of the controls and evaluate the controls for effectiveness.**

*Recommendation:*

- *The Department of Management and Budget should review and adequately document the key internal controls related to the risks in its payment process to ensure that staff perform the internal control procedures consistently, and they know how to report exceptions identified through the internal control procedures and take appropriate corrective action.*

Response: We partially agree with the finding. The department has completed its risk assessments for warrant processing and electronic funds transfer. The risk assessment documentation identifies key risks and controls that are in place to mitigate those risks. The risk assessment process and resulting documentation is not intended to provide the level of detail noted in the audit report. Instead, the department has written job procedures that provide more detailed instructions for employees to follow. The department will continue to review and update its job procedures to ensure that key controls identified through the risk assessments are addressed and appropriately documented.

Person responsible: Cindy Farrell

Estimated completion date: June 30, 2015

**Finding 2: The Department of Management and Budget did not adequately monitor when authorized employees viewed or changed data files containing not public data.**

*Recommendations:*

- *The Department of Management and Budget should record user actions on the payment files at all locations they reside on the systems.*
- *The Department of Management and Budget should ensure that records of user actions are reviewed by independent staff who are knowledgeable about the record contents.*

Response: We agree with the finding. The department has initiated discussions with MN.IT about how best to monitor and report on user actions against payment data files. Currently, reports are monitored that reflect actions taken while data is stored on the department's network. However, additional reports will be created to identify user actions made to payment data as the files pass through other systems. Reports will be reviewed by trained staff that do not have access to the payment files.

Person responsible: Cindy Farrell

Estimated completion date: June 30, 2015

**Finding 3: The Department of Management and Budget did not sufficiently restrict employee access to some data files.**

*Recommendation:*

- *The Department of Management and Budget should restrict access to files containing not public data to the access necessary for employees and consultants to perform their duties.*

Response: We agree with the finding. The departments have reviewed which employees have access to payment data files and made the changes to remove access for the individuals identified where access was no longer necessary. Automic is the software referenced in the audit that supports the scheduling and processing of batch jobs. Access to payment data files through Automic has been reduced to 23 employees. In addition, the department will work with MN.IT to remove the ability to view the payment data files through the Automic system which will further limit the number of employees with access to this data.

Person responsible: Cindy Farrell

Estimated completion date: June 30, 2015

**Finding 4: The Department of Management and Budget did not adequately ensure that warrants were not lost or inappropriately diverted prior to mailing.**

*Recommendation:*

- *The Department of Management and Budget should monitor the Department of Administration's daily reconciliation of the warrants mailed to the warrant count to ensure it is performed as designed, and it is effective to accomplish its purpose.*

Response: We agree with the finding. Daily reconciliation processes were established when the Department of Employment and Economic Development began printing state warrants. The Department of Administration appears to have ended this process after the loss of a key employee. MMB will work with the Department of Administration to ensure that the daily reconciliation process is resumed.

Person responsible: Ron Mavetz

Estimated completion date: April 30, 2015

**Finding 5: The Department of Management and Budget authorized some wire transfer transactions without adequate authorization from the requesting agency.**

*Recommendation:*

- *The department should ensure that it has appropriate and adequate authorization from state agencies before it processes wire transfer transactions.*

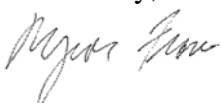
Response: We agree with the finding. A wire transfer is processed in limited situations and there are strong controls in place around this process. During FY 2014, over 16 million disbursements were processed and only 2,400 (or .02%) of those were wire transfers. There were two instances identified where wire transfers were processed without adequate signatures on the Warrant Special Handling Request forms. In each of these instances, the actual payments were routine and the employees involved were confident that the requests were legitimate. The department will ensure that its procedures are updated to include a process for reviewing and approving exceptions and ensure that employees are trained on the changes.

Person responsible: Ron Mavetz

Estimated completion date: April 30, 2015

If you have any questions or need additional information please contact Cindy Farrell at 651.201.8012 or [Cindy.Farrell@state.mn.us](mailto:Cindy.Farrell@state.mn.us).

Sincerely,



Myron Frans  
Commissioner