Department of Administrative Services Operations Rate Development Audit

Audit Period: Fiscal Year 2015 Rates

Results Summary:

Objective	Conclusion*
Rate Development Process	**Improvement Needed**

* Please refer to Appendix A for classification of audit objective conclusions.

Executive Summary

Background

The Department of Administrative Services (DAS) is responsible for providing state agencies with services pertaining to information technology systems, personnel, the procurement of goods and services, real estate, collective bargaining and equal opportunity. Approximately two-thirds of the agency's operating budget comes from fees that state agencies pay for these services. The General Services Division (GSD) provides services pertaining to procurement, real estate, and printing, while the Human Resources Division (HRD) handles personnel administration including benefits, and the Office of Information Technology (OIT) oversees the state's information technology infrastructure.

Every fiscal year, each DAS division prepares a budget allotment plan for each cost pool within the division. Divisions that charge rates for their services also develop an estimate of billing units or cost allocation units for each applicable rate. DAS bases billing rates on the annual budget allotments prepared by individual DAS divisions as adjusted for the Statewide Cost Allocation Plan (SWCAP) fund balances and operating cash levels.

During the audit, OIA identified opportunities for DAS to strengthen internal controls and improve business operations. This audit conforms to the *International Standards for the Professional Practice of Internal Auditing*. OIA would like to thank Department of Administrative Services staff and management for their cooperation and time in support of this audit.

This report is solely intended for the information and use of agency management and the State Audit Committee. It is not intended for anyone other than these specified parties.

Scope and Objectives

OIA staff was engaged to perform an assurance audit related to the controls over the Rate Development Process at DAS. This work was completed between December 2014 - June 2015. The scope of this audit included the following areas:

- General Services
  - State Printing - Copy Center
  - Facilities Management – Rent
    - Rhodes Tower
    - Surface Road – Office and Warehouse
  - Risk Management Services
  - Leased and Managed Vehicles
  - Fleet Rental
- Pay Agency Fund (HRD)
  - Disability Leave Fund (check-off)
- OIT/ISD

- o Virtual Server
- o LAN Connectivity
- o OIT Enterprise Services (check-off)

The following summarizes the objectives of the review:

- Evaluate the design and effectiveness of the controls around the rate development process.

Detailed Observations and Recommendations

The Observations and Recommendations include only those risks which were deemed high or moderate. Low risk observations were discussed with individual agency management and are not part of this report. However, the low risk observations were considered as part of the audit objective conclusions.

Observation 1 – Supporting Documentation

An effective rate development process includes maintaining accurate and detailed support used in the rate calculation. This is a standard business practice that promotes transparency, accountability, and business continuity. It also provides management with assurance that rates are being calculated accurately and include all appropriate costs incurred as well as an understanding of the rationale used in the determination of the rates.

OIA noted during the review process that documentation used to establish the rates proposed to OBM was not always adequately and completely maintained. There were several instances where documentation was provided that reasonably supported the figures being used; however, there was a lack of documentation supporting the rationale for using an amount different than the documentation provided.

DAS indicated that there could be e-mail correspondence or in-person meetings where discussions may take place to determine the appropriate amount to be used in the rate calculation. In some cases, there was no documentation of the final conclusion made as a result of these emails or discussions. Support documentation was not always readily available, due to it not being centrally maintained. Mid-year rate reviews are completed to assess if the rates need adjustment based on estimated fund balance; however, the rationale, approach, and timing used for decision making and results of the review are not formally documented.

During testing of the approved rate templates, OIA noted variances with some of the rates. A majority of the variances between OIA's calculation (based on the data provided) and DAS' proposed rate was less than five percent. There were a few rates with minor variances (under one percent) that were deemed to be immaterial. Testing did not reveal any miscalculated rates, but the support used during the calculation was not properly maintained, and therefore, could not

be provided to accurately re-perform the entire calculation.

Not consistently and adequately maintaining supporting documentation increases the risk that inaccurate rates may be developed and unallowable costs may be included in the rate.

Recommendation

Consider creating a centralized location where all supporting documentation for the rate calculations is maintained. This could be on a shared drive, a SharePoint site, or another agreed upon location. Each rate should have a separate folder to ensure information is being utilized for the appropriate rate.

Discussions and rationale should be consistently documented to support the amounts utilized in the rate calculations. This will provide backup for the amounts utilized when actual documentation does not agree or exist.

Additionally, a consistent naming convention should be utilized to allow for easy identification of the information contained in each file along with the file version to ensure the most current and accurate information is being utilized. Utilizing a centralized location to maintain information allows DAS to better control access to the documentation once the rate has been approved and would facilitate a more efficient management review process. It also provides an easier reference point in the event of employee turnover and helps to preserve business continuity. Once management determines where supporting documentation should be retained and the level of documentation to maintain, policies and procedures should be updated to accurately reflect those changes.

Management Response

Phase 1 (8/15/15) – Assess and determine the best method to maintain supporting documentation. The recommendation provided by OIA may not be practical for all rates. OIA recommends that documentation be kept in a separate folder for each rate. Many rates are intertwined and reviewed and discussed as a group. In the interim, the Budget Section will continue to work with the divisions to consolidate documentation that support the recommendation.

Phase 2 (1/31/16) – Implement the plan determined in Phase 1.

Phase 3 (8/1/16) – Reassess the effectiveness.

Risk*	Remediation Owner	Estimated Completion Date
Moderate	Budget Manager	January 2016

Due to the limited nature of our audit, we have not fully assessed the cost-benefit relationship of implementing the observations and recommendations suggested above. However, these observations reflect our continuing desire to assist your department in achieving improvements in internal controls, compliance, and operational efficiencies.

* Refer to Appendix A for classification of audit observations.

Appendix A – Classification of Conclusions and Observations

Classification of Audit Objective Conclusions

Conclusion	Description of Factors
Well-Controlled	The processes are appropriately designed and/or are operating effectively to manage risks. Control issues may exist, but are minor.
Well-Controlled with Improvement Needed	The processes have design or operating effectiveness deficiencies but do not compromise achievement of important control objectives.
Improvement Needed	Weaknesses are present that compromise achievement of one or more control objectives but do not prevent the process from achieving its overall purpose. While important weaknesses exist, their impact is not widespread.
Major Improvement Needed	Weaknesses are present that could potentially compromise achievement of its overall purpose. The impact of weaknesses on management of risks is widespread due to the number or nature of the weaknesses.

Classification of Audit Observations

Rating	Description of Factors	Reporting Level
Low	Observation poses relatively minor exposure to an agency under review. Represents a process improvement opportunity.	Agency Management; State Audit Committee (Not reported)
Moderate	Observation has moderate impact to the agency. Exposure may be significant to unit within an agency, but not to the agency as a whole. Compensating controls may exist but are not operating as designed. Requires near-term agency attention.	Agency Management and State Audit Committee
High	Observation has broad (state or agency wide) impact and possible or existing material exposure requiring immediate agency attention and remediation.	Agency Management and State Audit Committee