

SPRINGFIELD OFFICE:  
ILES PARK PLAZA  
740 EAST ASH · 62703-3154  
PHONE: 217/782-6046  
FAX: 217/785-9222



CHICAGO OFFICE:  
STATE OF ILLINOIS CENTER · SUITE 4-100  
100 WEST RANDOLPH STREET · 60601  
PHONE: 312/814-4000  
FAX: 312/814-4006

OFFICE OF THE AUDITOR GENERAL  
WILLIAM G. HOLLAND

**REPORT DIGEST**

5-94-40600-10

**DEPARTMENT OF CENTRAL MANAGEMENT SERVICES  
COMPLIANCE AUDIT  
FOR THE TWO YEARS ENDED JUNE 30, 1994**

**SYNOPSIS**

- The Department's Internal Audit Program was inadequate:
  - A Peer Review of the Department's internal audit program noted several weaknesses and improvements which could be made.
  - Internal audit workpapers did not always conform to professional standards.
  - The Department (DCMS) did not allocate sufficient resources to establish an adequate internal audit program. DCMS spends over \$1 billion annually and provides services to most other State agencies. This condition has existed since the Department began operations in 1982.
- The accounting system used for Telecommunications is outdated which hampers the Department's ability to correctly establish charges to users for services and equipment.
- The Department did not have formal microcomputer and Local Area Network policies and procedures.
- The office supply warehouse and the paper and printing warehouse maintained excess inventory levels.
- Some Department garages had gas prices higher than nearby public gas station prices. The State prices should be competitive.

{Expenditures and Cash Receipts are summarized on the reverse page.}

INTERNET ADDRESS: AUDITOR.GENERAL@ACCESSIL.COM

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**DEPARTMENT OF CENTRAL MANAGEMENT SERVICES**  
**INFORMATION FROM FINANCIAL AND COMPLIANCE AUDITS**  
**For The Two Years Ended June 30, 1994**

EXPENDITURE STATISTICS	FY 1994	FY 1993	FY 1992
● Total Expenditures (All Funds) . . . . .	\$1,434,269,067	\$1,476,106,726	\$1,199,987,196
<u>OPERATIONS TOTAL</u> . . . . .	\$1,404,085,723	\$1,430,373,422	\$1,162,641,144
% of Total Expenditures . . . . .	97.9%	96.9%	96.9%
Personal Services . . . . .	\$41,348,476	\$37,096,912	\$37,191,406
% of Operations Expenditures . . . . .	2.9%	2.6%	3.2%
Average No. of Employees . . . . .	1,258	1,163	1,162
Other Payroll Costs (FICA, Retirement, and Group Insurance) . . . . .	\$490,989,409	\$431,167,966	\$369,904,671
% of Operations Expenditures . . . . .	35.0%	30.1%	31.8%
Contractual Services . . . . .	\$15,744,340	\$13,323,365	\$12,405,734
% of Operations Expenditures . . . . .	1.1%	1.0%	1.1%
All Other Operations Items . . . . .	\$856,003,498	\$948,785,179	\$743,139,333
% of Operations Expenditures . . . . .	61.0%	66.3%	63.9%
<u>AWARDS AND GRANTS TOTAL</u> . . . . .	\$29,456,091	\$45,684,360	\$37,245,970
% of Total Expenditures . . . . .	2.1%	3.1%	3.1%
<u>PERMANENT IMPROVEMENTS TOTAL</u>	\$634,998	\$0	\$0
% of Total Expenditures . . . . .	0.0%	0.0%	0.0%
<u>REFUNDS TOTAL</u> . . . . .	\$92,255	\$48,944	\$100,082
% of Total Expenditures . . . . .	0.0%	0.0%	0.0%
● Cost of Property and Equipment . . . . .	\$507,690,000	\$381,110,000	\$193,121,000

CASH RECEIPTS (By Fund)	FY 1994	FY 1993	FY 1992
Health Insurance Reserve Fund . . . . .	\$591,166,506	\$569,712,263	\$489,382,226
Communications Revolving Fund . . . . .	98,538,034	89,222,007	88,258,512
State Employees' Deferred Compensation Plan Fund . . . . .	74,002,878	75,624,784	71,864,389
Group Insurance Premium Fund . . . . .	56,816,532	52,307,142	31,008,272
Statistical Services Revolving Fund . . . . .	51,984,966	55,838,005	36,952,718
Local Government Health Insurance Reserve Fund . . . . .	37,242,969	31,219,446	26,954,169
State Garage Revolving Fund . . . . .	30,063,107	25,913,910	26,018,711
Other . . . . .	<u>13,949,553</u>	<u>14,297,274</u>	<u>24,360,742</u>
Total Receipts . . . . .	<u>\$953,764,545</u>	<u>\$914,134,831</u>	<u>\$794,799,739</u>

AGENCY DIRECTOR(S)
During Audit Period: Stephen B. Schnorf Currently: Michael S. Schwartz

## INTRODUCTION

Our audit of the Department of Central Management Services is issued in two reports. The Compliance Audit Report contains the audit findings. The Supplemental Financial Information and Financial Statements Report contains our opinion on the financial statements and will be issued separately.

## FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

### INADEQUATE INTERNAL AUDIT PROGRAM

#### Internal Audit Peer Review Noted Weaknesses

A peer review was performed on the Department's internal audit program in December 1993 and noted several weaknesses and improvements which could be made. The peer review was performed by a team of internal auditors from other State agencies. In addition to other findings in the peer review report, the following weaknesses were identified:

- The bi-annual audit plan did not identify all major administrative control systems. This is needed to determine whether the plan covers all such control systems.
- The bi-annual audit plan did not include budgeted resources to carry out the plan. As a result, actual resources used cannot be compared to those budgeted to assess the adequacy of resources.
- Staff were not required to charge their time to projects making it impossible to compare budgeted to actual resources used.
- Audit reports were not issued for completed Computer systems pre-implementation reviews. These were not considered to be "internal audits" subject to the requirements of the Standards to issue reports.

The peer review report cited a lack of resources in the Department's internal audit program. (Finding 3, page 13)

Department officials concurred with our recommendation to implement the peer review's comments to strengthen and improve its operations.

#### Internal Audit Workpapers Deficient

Internal Audit workpaper documentation did not conform to professional standards. We noted many workpapers did not contain the period covered by the audit, an indication of the preparer, the date prepared, a signoff of all the audit program steps indicating completion, or the subsequent clearing of review points by the Chief Internal Auditor. These deficiencies

occurred due to insufficient review by internal audit personnel. Incomplete workpapers increases the possibility that errors or irregularities could go undetected. (Finding 2, page 12)

Department officials concurred with our recommendation to strengthen procedures for supervision and review of internal audit workpapers to comply with the requirements established by the Institute of Internal Auditors.

### **Internal Audit Work Incomplete**

The Department had not allocated sufficient resources to the internal audit section and, as a result, had not complied with the Fiscal Control and Internal Auditing Act. The Act requires designated agencies to establish a full-time internal audit program for biennial audits of all major Department systems of internal accounting and administrative control. **This finding has existed since the Department began operations on July 1, 1982.**

Although the internal audit section hired two more auditors during 1994, bringing the total to four, they still do not have the resources to audit an agency which spends over \$1 billion annually and provides services to most other State agencies. (Finding 1, page 11)

Department officials concurred with our recommendation to comply with the Fiscal Control and Internal Auditing Act. They said resources are being used to assist the Internal Audit section on limited special audits. (For previous agency responses, see Digest Footnote 1.)

### **OUTDATED ACCOUNTING SYSTEM FOR TELECOMMUNICATIONS**

The Department's telecommunications operation has an outdated accounting system and therefore has not established charges for telecommunications based on complete accounting information. The State Finance Act authorizes the Department to set charges for telecommunications services. To administer this function, an internal service fund is used to account for the revenues and expenses. Charges in an internal service fund should be set to recover all the expenses of providing those services including depreciation and administration costs.

Although the Department attempts to set rates for services and equipment according to costs, sufficient cost data is not provided by its primary accounting system. The Department is also unable to identify all administrative costs associated with the types of services provided. As a result, some rates for services may be paying for others because a distinction between overhead costs for different types of services cannot be made. Further, administrative costs are not allocated to all services provided by the Department. This means that all administrative costs are being recovered by allocation to only a few services.

The inability of the primary accounting system to provide cost accounting information, and provide for an accrual method of accounting, has increased the need for the

telecommunications staff to perform these functions manually. Manual operations take more time and are subject to human error. (Finding 13, page 28)

We recommended the Department develop or procure a new accounting system for the Communications Revolving Fund. A cost accounting system should provide the necessary information to properly allocate administrative costs, set rates for services, and monitor fund activity.

Department officials concurred and stated they have initiated a project to fully comply with our recommendation during Fiscal Year 1995.

### **LACK OF FORMAL COMPUTER POLICIES AND PROCEDURES**

The Department did not have formal microcomputer and Local Area Network (LAN) policies and procedures. Various memos and policies on specific topics have been developed over the years however, a comprehensive and detailed policy has not been developed. The Department has a sophisticated computer environment with over 900 microcomputers and 800 users connected to local area networks. In addition, the Department oversees the procurement and direction of computer use for many State agencies. (Finding 15, page 30)

We recommended the Department develop formal policies and procedures regarding microcomputers and LANs.

Department officials concurred and stated they have drafted a proposed LAN/OA Information Security Policy dated August 9, 1994. They said the document will provide a comprehensive framework from which detailed procedures can be developed for the management and use of microcomputer, Local Area Network and Office Automation resources within the Department.

### **EXCESSIVE INVENTORY ON HAND**

Our testing revealed instances where the Department was maintaining inventory in excess of State needs.

- The office supply warehouse typically kept a 90-day supply on hand which was excessive. The value of the office supply inventory at June 30, 1994 was \$671,980. (Finding 11, page 25)
- The paper and printing warehouse typically kept a 90-180 day supply on hand which was excessive. The value of the paper and printing inventory at June 30, 1994 was \$212,838. (Finding 16, page 32)

This excess appears to result from management allowing 30 days to process supply orders, and vendors are then allowed 30-60 days to ship. In addition, certain vendors have minimum order quantities, and therefore, higher quantities are ordered than needed. This inventory can become obsolete and never utilized.

Good business practice requires that inventory amounts on hand be minimized to the extent possible. Keeping large amounts of inventory results in a higher susceptibility to loss due to obsolescence, fire, and theft, and most importantly, it requires the State to use much needed funds to purchase the inventory.

In both instances, Department officials agreed with our recommendation to reduce inventory levels on hand to a 30-60 day supply.

### STATE GARAGE GAS PRICES NOT COMPETITIVE

Some Department garages had gas prices higher than gas station prices in the surrounding areas. In three of the five State garage locations tested, the gas prices were more expensive than public gas station prices. This occurred at the Champaign, Hillsboro, and Springfield locations. In performing this testing, the public gas station prices per gallon were reduced by the government exempt taxes to arrive at comparable prices per gallon. Good business practice dictates that the State garage prices should be competitive with public station prices or users will have no incentive to purchase gas at the State garages. (Finding 6, page 19)

Department officials concurred that they should check the marketplace more frequently to ensure their pricing is competitive. They stated their intention to review the concept of setting prices on a regional basis since pricing differs greatly from one part of the State to another.

### OTHER FINDINGS

In Fiscal Year 1993 the Department failed to comply with CUSAS by submitting some GAAP packages that were not properly prepared and reviewed prior to submission to the State Comptroller. In addition, complete accrual financial statements were not prepared. The Department did prepare monthly cash basis financial statements, but these are not in accordance with generally accepted accounting principles (GAAP). (Finding 5, page 16)

During the course of our audit the Department assigned an individual to coordinate the preparation and review of the fiscal 1994 GAAP packages and financial statements.

The remaining findings and recommendations are less significant and, for the most part, have been given appropriate attention by the Department. We will review progress toward the implementation of our recommendations in our next audit.

Mr. Stephen B. Schnorf, Director, provided the Department's responses.

  
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WILLIAM G. HOLLAND, Auditor General

WGH:KMA:pp  
March 30, 1995

## SUMMARY OF AUDIT FINDINGS

<u>Number of</u>	<u>This Audit</u>	<u>Prior Audit</u>
Audit findings	23	31
Repeated audit findings	8	14
Prior recommendations implemented or not repeated	23	14

## SPECIAL ASSISTANT AUDITORS

Coopers & Lybrand L.L.P. were our special assistant auditors for this audit.

## DIGEST FOOTNOTES

### #1: INTERNAL AUDIT WORK INCOMPLETE - Previous Agency Responses.

- 1992: "We concur. As a result of the FY'93 budget process, one (1) additional person (professional staff) will be added to the Internal Audit Division effective 12/15/92."
- 1990: "We concur. We have initiated an initiative in our FY92 appropriation for additional staff."
- 1988: "We concur. Additional new staff has been requested to provide full-time positions. As an intermediate step, we will continue to reallocate existing Central Management Services (CMS) resources to provide specific expertise on audit assignments."
- 1986: "We concur with the recommendation and are taking positive steps through the budget process for next year."
- 1984: "While the Department will allocate resources of available personnel to comply with the statutes, we will also consider contracting with a CPA firm to assist us in specialized EDP audits."