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Prepared by the
Division of
Legislative Audit

DEPARTMENT OF ADMINISTRATION

A Summary of 2013 and 2014 Audit Recommendations

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Department of Administration
Enterprise Technology Services Division
Alaska Land Mobile Radio
Communications System

Audit Control Number
02-30070-13

REPORT CONCLUSIONS

This performance audit examined the Alaska Land Mobile Radio (ALMR) Communications System (system). The purpose of the audit was to report on the ALMR system's use and degree of interoperability. The audit also identified system expenditures and funding needs; assessed the condition of divested assets; identified ALMR functions required by law; and evaluated the reasonableness of the ALMR feasibility study. The audit resulted in the following findings and conclusions:

- No federal or state laws require the ALMR system.
- ALMR assets transferred from the federal government were determined to be operational, but upgrades of $120,000 were identified.
- User agencies did not actively track ALMR equipment.
- The ALMR system does not always provide interoperable communications.
- The ALMR system does not cover all areas of the State.
- The ALMR system is not always available when needed.
- The effectiveness of agencies' handheld radio range is limited and radio reception has some limitations.
- ALMR expenditures were mainly for operating and maintaining the system.
- DOA expects to recover approximately $371,000 from federal agencies during FY 14 for the ALMR system.
- The ALMR feasibility study generally addressed legislative intent.

- **Recommendation A:** The Alaska Land Mobile Radio (ALMR) Executive Council should ensure user agencies conduct an annual inventory of ALMR equipment.

  Over half of ALMR user agencies (68 of 120) do not track ALMR equipment numbers and user names. In accordance with ALMR asset management procedures, the user agency is responsible for accounting for the equipment and must perform an annual inventory. Furthermore, ALMR policies also require a permanent record of all reported user equipment be annually updated and maintained by ALMR system management.

  Due to a lack of oversight by the ALMR Executive Council and user agencies, an annual inventory of ALMR user agency equipment was not performed by either ALMR management or user agencies. As a result, there is an increased risk of unauthorized use or monitoring of the ALMR system.

- ✓ **Agency Response**: Generally agreed

  The ALMR Executive Council generally concurred with the recommendation. The Council will be considering additional strategies to gain compliance from agencies with regard to reporting on the required annual audit of the agencies' equipment.

- ❖ **Current Status**

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Department of Administration
Administrative Services Division
Office of Public Advocacy
Select Procurement Issues

Audit Control Number:
02-30069-13

Report Conclusions

This performance audit examined procurement activities covering the period FY 06 through FY 12 within the Office of Public Advocacy (OPA). The audit objectives were to (1) evaluate OPA's compliance with state law when procuring professional services; (2) evaluate whether OPA's professional service contracts were prudently administered; and (3) determine whether OPA's professional service contractors were appropriately classified as contractors rather than employees. The audit concluded the following:

- *OPA has not complied with the State Procurement Code.* From FY 06 through FY 12, over $17.8 million in state funds were paid for improperly obtained professional services.
- *OPA has not prudently administered its contracts.* An evaluation of OPA's contracts and invoices identified administrative deficiencies including: contract amendments and invoices that were not supported; contact prepayments that were not made in accordance with state rules; and novations used incorrectly to increase contract amounts. Additionally, OPA did not use the compensation requirements established in OPA's regulations.
- *OPA's professional service contractors were appropriately classified as contractors rather than as employees.*

Office of Public Advocacy Select Procurement Issues
(Continued)

- **Recommendation A:** The Department of Administration's Division of Administrative Services (DAS) director should ensure that all Office of Public Advocacy (OPA) professional services are obtained in accordance with the State Procurement Code.

  Rather than comply with the State Procurement Code (Code), OPA management relied on historical practices and the belief that the agency was exempt from the code for all court appointments. Insufficient understanding of the Code by current OPA management caused the deficiencies. Furthermore, insufficient oversight by DAS contributed to the persistent disregard of procurement regulations in favor of processes instituted by OPA management.

  From FY 06 through FY 12, OPA paid approximately $17.8 million in state funds for improperly obtained professional services. The majority of that amount was to vendors that were subject to large procurement rules including attorneys working on criminal cases, investigators, transcriptionists, and experts.

  OPA's internal processes are noncompetitive procurement methods that lack transparency and accountability. These methods did not promote fair and open competition. Additionally, because there were no contract specifications and no open solicitations, vendors may not have been treated equally. We recommend that the DAS director ensure that all OPA professional services are obtained in accordance with state law. As a part of improvements, OPA management should not procure large contracts since they do not have large procurement authority.

- ✓ **Agency Response:** Generally agreed

  Over the past year, OPA and DAS began discussions regarding the contracting processes that OPA used to contract for attorney services and will continue the discussion for all other procurement processes.

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- **Recommendation B:** The DAS director should ensure that OPA complies with small procurement rules.

OPA management was not able to demonstrate that small procurement requirements were followed for any of the 11 small procurement contracts, totaling over $330,000, analyzed as part of this audit.

The State Procurement Code requires specific documentation of the procurement process, depending on the contract amount. For 10 of 11 contracts, OPA should have used reasonable and adequate procedures and created records that facilitated auditing (*Title 2 of the Alaska Administrative Code, section 12.400(b)(5)*. For the remaining contract, documentation should have included a copy of the solicitation, the names of the contracted parties, copies of all the written informal proposals received, and documentation and justification of the award (*Title 2 of the Alaska Administrative Code, section 12.400(b)(3).*

OPA management did not have supporting documentation for the 11 contracts because management did not sufficiently understand small procurement requirements. OPA's undocumented process did not demonstrate that OPA management promoted fair and open competition. Additionally, OPA management could have paid a higher price for potentially lower quality services than they would have paid if the appropriate procurement process was followed.

We recommend that the DAS director ensure that OPA complies with small procurement rules. As a part of improvements, the DAS director should consider limiting OPA's small procurement authority until OPA personnel is sufficiently trained.

✓ **Agency Response:** Agreed

DAS will now ensure that the OPA staff that make procurements have the appropriate DGS procurement delegation and will look at current processes and bring certification to the DAS fiscal staff in Juneau.

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- **Recommendation C:** The DAS director should improve the oversight of OPA contract administration to ensure compliance with the State Procurement Code and the Alaska Administrative Manual (AAM)

  Lack of fiscal controls resulted in overpayments for services received; potential payments for services not received; payments for services unrelated to contracts; waste of state resources due to increased staff time spent on researching and correcting inappropriate processes; disparity in the treatment of vendors; and increased risk of litigation. The findings presented below are based on a sample of OPA contracts and invoices. Since the cause of the errors is systemic and pervasive, more deficiencies likely exist.

  - Thirty-two flat-rate contractors were paid over $7 million in advance without proper documentation.
  - Four contracts containing unanticipated amendments totaling $717,600 lacked required written explanations for changes in contract terms.
  - Five contracts incorrectly used the novation process to increase contract amounts by $234,978.
  - Two contracts were inappropriately transferred to new contractors without documentation.
  - Three contractors' pay rates were increased by a total of $83,476 without consideration of the contract terms.
  - There were multiple payments, totaling $161,031, made to six contractors for services performed after contract expiration dates.
  - Fifteen of 33 invoices were not adequately supported.
  - Two contracts were not signed by the "Head of Contracting Agency or Designee."
  - The hourly compensation rates for 31 of 33 attorneys and guardians ad litem exceeded the rates established in regulations.

✓ **Agency Response:** Agreed

OPA has begun the process of centralizing the department's procurement staff into DAS to ensure that there is sufficient oversight.

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State of Alaska
Single Audit
for the
Fiscal Year Ended
June 30, 2013

Department of Administration

Audit Control Number
02-40014-14

There are two primary objectives for the State of Alaska, Single Audit for the Fiscal Year Ended June 30, 2013 (Statewide Single Audit). The first is to determine if the State of Alaska's financial statements are fairly presented in accordance with generally accepted accounting principles. The second is to determine if the State has materially complied with the various federal laws, regulations, and contract provisions when expending federal financial assistance.

The Department of Administration (department) had four recommendations in the FY 13 Statewide Single Audit.

➢ **Recommendation A:** The Enterprise Technology Services Division (division) director should implement procedures to properly account for capital assets owned by the Information Services Fund.

This finding was first reported in the FY 06 Statewide Single Audit. The audit reported that the division's asset tracking system did not accurately track and value Information Services Fund assets. Specifically, it did not consistently capitalize the cost of capital improvements, employ a consistent methodology for tracking the disposal of capital assets, or provide for a formal inventory reconciliation.

Little progress was made to address the finding in FY 07 through FY 10. In FY 11, the division made progress in implementing an asset tracking system that appears adequate to meet basic asset tracking needs. While progress has been made in implementing a system for managing capital asset data, the division has not made sufficient progress in establishing procedures for entering and tracking assets. As a result, the system did not provide complete and accurate asset tracking and valuation. No comprehensive inventory has been completed for the Information Services Fund capital assets.

Legislative Audit's Current Position: During FY 13, ETS did not address the accuracy of historical data input into its asset tracking system and no comprehensive inventory was completed. ETS management attributed the lack of progress to staff turnover and limited staff resources.

✓ **Agency Response:** Agreed.

According to the department, guidance has been provided to division staff to draft procedures and to begin accounting for physical inventory assets within the calendar year.

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- **Recommendation B:** The Division of General Services (DGS) operations manager should, in consultation with Division of Finance (DOF) accounting staff, develop asset capitalization procedures for the public building fund that comply with generally accepted accounting principles.

  Four maintenance projects for state owned buildings were inappropriately capitalized as public building fund assets in the FY 13 Comprehensive Annual Financial Report (CAFR).

  DGS has no written capitalization procedures for its state owned public buildings. DGS accounting staff rely on division contracting officers for information about whether or not various large-scale repairs or improvements should be capitalized. Final determinations are made by the state facilities manager. Inappropriately capitalizing the projects resulted in a $359,835 overstatement of building assets and an understatement of expenses for the public building fund in the FY 13 CAFR. The error was identified during the FY 13 CAFR audit but did not meet the threshold for adjustment and was not corrected.

  We recommend DGS' division operations manager develop asset capitalization procedures for the public building fund that comply with generally accepted governmental accounting principles. Procedures should be developed in consultation with DOF accounting staff responsible for preparing the CAFR.

- **Agency Response:** Agreed.

  DGS and DOF have cooperatively developed a detailed plan that will result in DGS adoption of a formal capitalization procedure that complies with generally accepted accounting principles.

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- **Recommendation C:** DOA's Division of Finance director, the Department of Commerce, Community, and Economic Development's (DCCED) Division of Administrative Services director, and the Office of Management and Budget (OMB) director should improve procedures to ensure appropriations are correctly established in the Alaska state accounting system (AKSAS).

  DOA, DCCED, and OMB procedures were insufficient to prevent or detect an incorrectly established authorization in AKSAS. Session Laws of Alaska (SLA) 2013, Chapter 16, Sections 4 and 5 authorized a $95.2 million appropriation to the Alaska Energy Authority (AEA) to be funded by Alaska Housing Capital Corporation (AHCC) receipts. This appropriation was erroneously recorded in AKSAS as funded by the general fund.

  Unclear language in SLA 2013, Chapter 16, Sections 4 and 5 contributed to the error. Section 4 categorized the funding source as general funds, but Section 5 specifically identified AHCC receipts as the funding source. Furthermore, AHCC management was unaware of the $95.2 million authorization. These factors contributed to the incorrect funding source being used when establishing the appropriation in AKSAS.

- ✓ **Agency Response:** Agreed.

  DOA/DOF is working closely with DCCED to update and clarify procedures to improve the accuracy of recording appropriations in AKSAS. Updated procedures, training for agency personnel, and careful review of documents when the annual appropriations bills are recorded should prevent errors of this nature in the future.

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- **Recommendation D:** DOA's commissioner and ETS and DGS' directors should improve procedures over maintenance of the State's critical information systems to limit disruptions.

  During FY 13, the State's mainframe was offline for five continuous days. This disruption of service was due to aging equipment and insufficient maintenance. While the mainframe was unavailable, agencies were asked to develop and use manual systems. The use of manual systems increases the risk of processing errors and disrupts the continuity of state business.

  We recommend DOA's commissioner work with ETS and DGS' directors to improve procedures over maintaining the State's critical information systems to limit disruption of daily operations. We further recommend DOA's commissioner ensure agency personnel responsible for maintaining the State's systems are adequately trained in proper incident response procedures and responsibilities.

  Auditor's Note: *The details of this control weakness are being withheld from this report to prevent the weakness from being exploited. Pertinent sensitive details have been communicated to agency management in a separate, confidential document.*

- ✓ **Agency Response:** Agreed.

  ETS and DGS staff are working together with the goal of updating procedures over maintaining the State's critical information systems to limit disruption of daily operations. Enhanced procedures that have been implemented include increased frequency of scheduled generator maintenance and live generator testing, and implementation of an electronic monitoring system.

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