

Information Technology Division

Findings on Compliance with Rules and Regulations

Finding Number 66: \$25,121 in Duplicate Charges Included in the Rates

The Information Technology Division included duplicate unemployment insurance of \$25,121 in computing its final 1995 rates.

Costs as shown in Massachusetts Management Accounting and Reporting System (MMARS) and allocable to the Information Technology Division (Division) in accordance with OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, were used as a basis for preparing final rates for 1995 telecommunications, mail and computer services. During the fiscal year 1997 audit, it was noted that costs reflected in MMARS included amounts billed through the statewide chargeback system for group insurance, retirement and unemployment insurance. In addition to these costs, the Division added the federally-approved fringe benefit rate which also included costs for group insurance, retirement and unemployment insurance. As a result, the 1995 rates included \$810,468 in duplicate charges for those fringe benefits.

The Division credited \$785,347 in duplicate group insurance and retirement benefits against the fiscal year 1996 plan. The remaining amount of \$25,121 for unemployment insurance has not been credited. Division personnel stated that this was an oversight in adjusting the 1996 rate calculation and that an adjustment would be made to the 1998 rate calculation.

The duplicate charges represented .07% of the total costs of the Division. The cost of mail and computer services, which comprised 77% of total Division costs, had net cost underrecoveries of \$577,628 and \$8,877,877, respectively. Telecommunications charges, which comprised the remaining 23% of total Division costs, had an overbilling of \$1,058,990. The exact impact on federal programs could not be readily determined. (*Various Federal Programs; Fiscal Year 1997 Single Audit Finding 75*)

Recommendation:

The Information Technology Division should adjust future billing rates for the duplicate charges.

Department corrective action plan:

ITD agrees with the single Auditor. The adjustment will be made in the fiscal year 1998 Federal Reconciliation.

Responsible person: Edward Shapiro

Date to be corrected by: Corrected in fiscal year 1998 reconciliation submission (Spring 1999)

Finding Number 67: \$3,824,999 in Additional Costs Included in the 1996 and 1997 Rates Effecting Both Federal and State Programs

The Information Technology Division had \$895,032 and \$2,929,967 in additional costs totaling \$3,824,999 in computing its final 1996 and 1997 rates. These costs effected the rates that were charged to both federal and state programs.

Costs as shown in MMARS and allocable to the Information Technology Division (Division) in accordance with OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, were used as a basis for preparing final rates for 1996 and 1997 telecommunications, mail and computer services. During the audit of these rates the following was noted.

For 1996:

- The rate used to compute the fringe benefits was 41.32%; the federally-approved rate was 37.68%. This resulted in an \$335,032 overrecovery on all rates;
- An amount of \$560,000 was included for an executive office allocation. This amount was not approved in the Statewide Cost Allocation Plan (SWCAP) for that year. This resulted in an overrecovery of \$560,000 on all rates; and
- A rate was not developed for on-line reports. The cost of on-line reports was included in the development of other rates. The impact of this on other rates could not be determined.

The Division did not adjust for the change in the fringe benefit rate and was not aware that the executive office allocation had been eliminated from the SWCAP for that year. Omission of a rate for on-line reports was an oversight.

The net overrecovery for fiscal year 1996 was \$895,032 or approximately 2% of total Division expenditures. The cost of mail and computer services, which comprised 6% and 66%, respectively of total Division costs, had net cost under recoveries of \$990,327 and \$5,140,198, respectively. Telecommunications charges, which comprised the remaining 28% of total Division costs, had an overbilling of \$1,086,985.

In order to assess the effect of the net \$895,032 overrecovery to each type of service, the over-recovery was allocated according to the percentage each service was to total Division costs. It is estimated that there would be a net underrecovery of \$936,625 ($\$990,327 - \$895,032 \times 6\%$) for mail and \$4,549,477 ($\$5,140,198 - \$895,032 \times 66\%$) for computer usage. The telecommunications overrecovery would increase by \$250,609 to \$1,337,594 ($-\$1,086,985 - \$895,032 \times 28\%$). The exact impact on federal

programs could not be readily determined.

For 1997:

- The rate used to compute the fringe benefits was 41.32%; the federally-approved rate was 29%. This resulted in an \$1,413,541 overrecovery for all rates.
- A credit of \$1,285 from retirement board was not netted against expenditures. This affected all rates.
- Salaries totaling \$15,551 and related fringe benefits of \$4,510 were not included. This resulted in an underrecovery of \$20,061 for all rates.
- Revenue of \$1,535,202 received from the telephone company for overcharges was not credited against telecommunications expenditures.
- The distribution of costs for wide area network lines did not take the number of service units provided into consideration. This affected all wide area network rates.

The Division did not adjust for the change in the fringe benefit rate. The omission of salaries and netting of revenue against expenditures was an oversight.

The cost of mail, computer services and telecommunications, which comprised 9%, 90% and 1%, respectively of total Division costs, all had net cost under recoveries of \$920,475, \$9,332,840 and \$108,094, respectively.

The net overrecovery for fiscal year 1997 computed during the audit was \$2,929,967. Of that amount \$1,394,765 was due to fringe benefits, the credit from retirement and the omission of salaries, which related to developing all rates. The remaining over recovery of \$1,535,202 related solely to telecommunications. These over recoveries represented 9% of the total costs of the Division. The error in computing wide area network rates would not change the total cost of the service.

In order to assess the effect of the net \$1,394,765 overrecovery to each type of service, the overrecovery was allocated according to the percentage each service was to total Division costs. It is estimated that there would be a net underrecovery of \$794,946 ($\$920,475 - \$1,394,765 \times 9\%$) for mail, \$8,077,552 ($\$9,332,840 - \$1,394,765 \times 99\%$) for computer usage and \$94,146 ($\$108,094 - \$1,394,765 \times 1\%$) for telecommunications.

The estimated telecommunications underrecovery of \$94,146 would become an overrecovery of \$1,441,056 by netting the revenue of \$1,535,202 received against expenditures ($\$94,146 - \$1,535,202$). The exact impact on federal programs could not be readily determined. (*Various Federal Programs*)

Recommendation:

The Information Technology Division should adjust future billing rates for the overcharges and determine the proper distribution of costs to users of the wide area network.

Department corrective action plan:

ITD disagrees with the Single auditor on the following part of the finding.

- o Revenue of \$1,535,202 received from the telephone company overcharges

The following amount is not revenue and should not be included in the fiscal year 1996 reconciliation:

Credit Refunds from NYNEX received during fiscal year 1997 for:

1. Fiscal year 1991 billing error accounted for in fiscal year 1991 Federal Reconciliation
2. NYNEX posted ITD payments to the wrong billing accounts.....\$1,400,000

The following amount will be corrected in the fiscal year 1998 Federal Reconciliation:

Cash receipts from NYNEX for one cent per phone call:\$135,202

Other items: The following will be corrected in the fiscal year 1998 Federal Reconciliation:

- The rate used to compute the fringe benefits was 41.32%; the federally-approved rate was 37.68%. This resulted in an \$335,032 overrecovery on all rates.
- An amount of \$560,000 was included for an executive office allocation. This amount was not approved in the Statewide Cost Allocation Plan (SWCAP) for that year. This resulted in an overrecovery of \$560,000 on all rates.
- A rate was not developed for on-line reports. The cost of on-line reports was included in the development of other rates. The impact of this on other rates could not be determined.

For 1997

- o The rate used to compute the fringe benefits was 41.32%; the federally-approved rate was 29%. This resulted in an \$1,413,541 overrecovery for all rates.
- o A credit of \$1,285 from retirement board was not netted against expenditures. This affected all rates.
- o Salaries totaling \$15,551 and related fringe benefits of \$4,510 were not included. This resulted in an underrecovery of \$20,061 for all rates.
- o The distribution of costs for the wide area network lines did not take the number of service units provided into consideration. This affected all wide area network rates.

Responsible person: Edward Shapiro

Date to be corrected by: Corrected in fiscal year 1998 reconciliation submission (Spring 1999)

Finding Number 68: Documentation Supporting Rate Development Needs Improvement

The Information Technology Division did not include all required documentation in developing its 1996 and 1997 rates.

The Information Technology Division (Division) is responsible for preparing rates used to directly bill Commonwealth departments for mail, computer, and telecommunications services.

OMB Circular A-87 (Circular) and ASMB C-10 *Cost Principles and Procedures for Developing Cost Allocation Plans and Indirect Cost Rates for Agreements with the Federal Government*, the implementation guide (Guide) for Circular A-87, specifies certain minimum documentation that must be prepared for internal service funds and other billed services, which bill for their services to federal awards. During a review of the 1996 and 1997 final rates, it was noted that certain aspects of the Division's rate documentation were not in compliance with the Circular and the Guide.

Most employees during both years charged their time to one of the Division's 35 organizations. Many of these organizations are either entirely assigned to a single cost center which is used to develop one of the 19 rates billed or identified as administrative cost centers and allocated to direct cost centers. Other organizations within the Division had employees who were not all assigned to the same cost center but were functionally designated to different direct or administrative cost centers during the process of computing the rates. The methodology for preparing the rates did not describe this allocation process and job descriptions did not always detail duties sufficiently to ascertain to what cost center an individual should be assigned. Also, a few employees were charged to either two direct cost centers or to a direct cost center and an indirect activity. The Division does not have a standardized time sheet. Some employees indicate what organization they worked in, a few also identify their activities; others merely sign an attendance log.

Circular A-87, Attachment B Section 11 h, concerning personal compensation, indicates that where employees are expected to work on a single indirect cost activity, payroll documentation will be based on the practice of the governmental unit. Those Division employees, who are assigned to administrative organizations and are identified as performing an administrative activity during the rate computation process, have proper time documentation as defined by the Circular. For employees expected to work on a single federal award or direct cost objective, which is billed to federal awards, the Circular notes that charges for their salaries will be supported by periodic certifications. The certification should be

prepared at least semi-annually and signed by the employee or supervisory official having first hand knowledge of the work performed by the employee. Furthermore, when employees work on an indirect cost activity and a direct cost activity, a distribution of their salaries will be supported by personnel activity reports. It could not be determined from the Division's documentation whether all employees were, in fact, working in the cost centers they were charged to during the year or assigned to in the rate calculation process.

Since all time charges could be reconciled with MMARS, it is unlikely that the Division is over-billing for salaries. The Division felt its time keeping system was adequate to support the salaries charged to cost centers and verbally confirmed with supervisors that salary allocations were proper.

In addition, the Division did not prepare all documentation that is required for billed services rate development. Section 4.5.2 of the Guide outlines certain minimum documentation that must be prepared for internal service funds and other billed services. An updated description of all services provided, a revenue and expense statement, with revenues broken out by source and a reconciliation of retained earnings were not included. Since the Division plan was initially developed to bill the U.S. Department of Health and Human Services for computer use by the Commonwealth's welfare agencies, the Division considers itself a public assistance agency. Public assistance agencies do not have these specific documentation requirements. An official from the U.S. Department of Health and Human Services, Division of Cost Allocation indicated that the services the Division of Information Technology provides should be reviewed to determine what rules currently apply.

Finally, there was a significant change in the manner in which telecommunications charges were billed in 1997. The telecommunications system was out-sourced, thereby reducing the cost of that service from 28% of the Division's costs in 1996 to 1% in 1997. The Plan does not describe the change in methodology. The exact impact on federal programs could not be readily determined. (*Various Federal Programs*)

Recommendation:

The Information Technology Division should ensure that the documentation supporting future rates is in compliance with the minimum requirements as stated in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments* and ASMB C-10 *Cost Principles and Procedures for Developing Cost Allocation Plans and Indirect Cost Rates for Agreements with the Federal Government*.

Department corrective action plan:

ITD does not agree with the Single Auditor on the following:

Per the single auditor: The methodology for preparing the rates did not describe this allocation process and job descriptions did not always detail duties sufficiently to ascertain to what cost center an individual should be assigned.

ITD Response: Disagree with auditor's finding: The ITD Cost Allocation Plan describes in detail the costs applicable to each chargeback cost center.

Per the single auditor: Also, a few employees were charged to either two direct cost centers or to a direct cost center and in indirect activity.

ITD Response: Disagree with auditor's finding All employees were charged to chargeback cost centers based on the rules of Circular A-87. ITD does not know the situation the auditor is referring to.

Per the single auditor: The Division does not have a standardized time sheet. Some employees indicate what organization they worked in, a few also identify their activities; others merely sign an attendance log.

ITD Response: Disagree with auditor's finding: The time sheets used by ITD comply with all know state regulations. The time sheets also comply with Circular A-87.

Per the single auditor: In addition, the Division did not prepare all documentation that is required for billed services rate development. Section 4.5.2 of the Guide outlines certain minimum documentation that must be prepared for internal service funds and other billed services. An updated description of all services provided, a revenue and expense statement, with revenues broken out by source and a reconciliation of retained earnings were not included. Since the Division plan was initially developed to bill the U.S. Department of Health and Human Services for computer use by the Commonwealth's welfare agencies, the Division considers itself a public assistance agency. Public assistance agencies do not have these specific documentation requirements. An official from the U.S. Department of Health and Human Services, Division of Cost Allocation indicated that the services the Division of Information Technology provides should be reviewed to determine what rules currently apply.

ITD Response: The ITD Cost Allocation Plan as negotiated with the U.S. Department of Health and Human Services are Section 2 costs that use the rules of 45CFR95 as the basis of its cost accounting. Per state law, ITD is not an internal service fund. It does not have a retained revenue account. All of its appropriation and revenue accounts are closed out at the end of the fiscal year. Surplus monies, if any, are reverted to the State's General Fund.

ITD agrees with the Single Auditor on the following:

Documentation...ITD will update its documentation for two rates that did not appear in it. The rate for network services and the rate for stored mainframe reports under View Direct. The data warehouse billing algorithm will also be fully documented.

Responsible person: Edward Shapiro

Date to be corrected by: Corrected in fiscal year 1998 reconciliation submission (Spring 1999).

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