

Office of the Auditor General
Performance Audit Report

**Statewide Cost Allocation Plan and
Interagency Billing Processes**
Department of Technology, Management, and Budget

November 2018

The auditor general shall conduct post audits of financial transactions and accounts of the state and of all branches, departments, offices, boards, commissions, agencies, authorities and institutions of the state established by this constitution or by law, and performance post audits thereof.

Article IV, Section 53 of the Michigan Constitution



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Report Summary

*Performance Audit
Statewide Cost Allocation Plan (SWCAP)
and Interagency Billing Processes
Department of Technology, Management,
and Budget (DTMB)*

Report Number:
071-0131-18

Released:
November 2018

The State of Michigan's SWCAP is the mechanism by which the State identifies, summarizes, and allocates unbilled indirect costs in a logical and systematic manner. The SWCAP also includes financial and billing rate information for billed central service costs directly charged to agencies or funds. The SWCAP is established in accordance with the U.S. Office of Management and Budget *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) to obtain reimbursement from the federal government for Statewide indirect costs.

Audit Objective			Conclusion
Objective #1: To assess the effectiveness of DTMB's efforts to establish and implement the SWCAP.			Effective
Findings Related to This Audit Objective	Material Condition	Reportable Condition	Agency Preliminary Response
None reported.	Not applicable.		

Audit Objective			Conclusion
Objective #2: To assess the effectiveness of DTMB's process for recovery of selected central service costs.			Effective
Findings Related to This Audit Objective	Material Condition	Reportable Condition	Agency Preliminary Response
None reported.	Not applicable.		

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November 9, 2018

Mr. David L. DeVries
Director, Department of Technology, Management, and Budget
Chief Information Officer, State of Michigan
Lewis Cass Building
Lansing, Michigan

Dear Mr. DeVries:

This is our performance audit report on the Statewide Cost Allocation Plan and Interagency Billing Processes, Department of Technology, Management, and Budget.

As you are aware, when our preliminary survey does not identify significant concerns to warrant completing the audit, we issue a preliminary survey summary. For this project, we went forward with the audit to support the *State of Michigan Comprehensive Annual Financial Report*.

We appreciate the courtesy and cooperation extended to us during this audit.

Sincerely,

Doug Ringler
Auditor General

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AUDIT OBJECTIVES, CONCLUSIONS, FINDINGS, AND OBSERVATIONS

ESTABLISH AND IMPLEMENT THE SWCAP

BACKGROUND

The Department of Technology, Management, and Budget's (DTMB's) Office of Financial Management is responsible for the State of Michigan's Statewide Cost Allocation Plan (SWCAP). Since 1987, DTMB has contracted with a private consultant to prepare the SWCAP. DTMB reviews and approves the SWCAP before it is submitted to the U.S. Department of Health and Human Services (HHS).

Statewide unbilled indirect costs* include the cost of central support services, such as accounting, purchasing, budgeting, payroll, and information systems, provided to operating departments. The Department of Civil Rights, Civil Service Commission, DTMB, Department of Treasury, and Office of the Auditor General provide central support services.

AUDIT OBJECTIVE

To assess the effectiveness* of DTMB's efforts to establish and implement the SWCAP.

CONCLUSION

Effective.

FACTORS IMPACTING CONCLUSION

- Our review of the federal approvals and comments on the prepared SWCAP reports did not identify any discrepancies within the Cost Allocation Agreement.
- DTMB's internal review processes help to ensure that the SWCAP is accurate and appropriate.
- Our review of supporting documentation for the amounts used in the SWCAP for selected central service departments did not disclose any significant errors.
- Our review showed that select indirect charges were allowable in accordance with legislation.
- Our audit report does not include any findings related to this audit objective.

* See glossary at end of report for definition.

RECOVERY OF CENTRAL SERVICE COSTS

BACKGROUND

DTMB administers five internal service funds*: Information Technology Fund, Motor Transport Fund, Office Services Revolving Fund, Risk Management Fund, and State Sponsored Group Insurance Fund. The Civil Service Commission also administers the State Sponsored Group Insurance Fund.

Billed central service costs* include goods or services provided primarily to other State agencies or funds rather than to the general public. Some of these goods and services include telecommunication and IT services; motor pool services; printing, reproduction, and mailing services; health-related fringe benefits; and building occupancy charges.

State agencies are billed for goods and services based on rates (see Exhibit #1) established to cover actual costs. Billed central service costs charged directly to other State agencies or funds were as follows:

	Fiscal Year	
	2016	2017
Information Technology Fund	\$727,509,000	\$854,404,000
State Sponsored Group Insurance Fund	\$739,065,000	\$762,767,000
Office Services Revolving Fund	\$ 95,754,000	\$101,281,000
Motor Transport Fund	\$ 66,651,000	\$ 70,497,000
Risk Management Fund	\$ 4,942,000	\$ 5,072,000
Building occupancy	\$ 88,512,000	\$ 90,266,000

* See glossary at end of report for definition.

AUDIT OBJECTIVE

To assess the effectiveness of DTMB's process for recovery of selected central service costs.

CONCLUSION

Effective.

**FACTORS
IMPACTING
CONCLUSION**

- Our review of supporting documentation for interagency billings did not disclose any significant errors.
- DTMB's internal control* and processes help ensure that the interagency billings are appropriate.
- Our review indicated that DTMB is recovering its costs for services provided.
- Our audit report does not include any findings related to this audit objective.

* See glossary at end of report for definition.

SUPPLEMENTAL INFORMATION

UNAUDITED
Exhibit #1

STATEWIDE COST ALLOCATION PLAN AND INTERAGENCY BILLING PROCESSES Department of Technology, Management, and Budget

Examples of User Charges For Fiscal Year 2017

Information Technology Fund

Local call	\$.10 per call
Long distance call	\$.0445 per minute (domestic)
Office automation rate	\$86.18 per work station per month
Server monitoring	\$115.00 per server per month
Smart device management service fee	\$20.00 per device per month
Personnel voice mailbox	\$2.75 per mailbox per month

Motor Transport Fund

Midsize passenger vehicle	\$207 per month plus \$.1635 per mile
Large passenger vehicle	\$243 per month plus \$.1751 per mile
Police deluxe	\$343 per month plus \$.2007 per mile
Minivan	\$269 per month plus \$.2283 per mile

Office Services Revolving Fund

Metered mail	\$.0424 per piece
Presorted mail	\$.0320 per piece
Warrant printing	\$.0620 per image
Delivery services	\$136.00 minimum per hour
Warehouse space - Uninventoried	\$11.00 per square foot per year
Warehouse space - Inventoried	\$30.00 per square foot per year

Source: The OAG prepared this exhibit using information obtained from DTMB.

STATEWIDE COST ALLOCATION PLAN AND INTERAGENCY BILLING PROCESSES
Department of Technology, Management, and Budget

Select Internal Service Fund Operating Revenues
For Fiscal Years 2016 and 2017

	<u>2016</u>	<u>2017</u>
Information Technology Fund	\$727,509,000	\$854,404,000
State Sponsored Group Insurance Fund	\$739,065,000	\$762,767,000
Building occupancy	\$ 88,511,822	\$ 90,265,589
Motor Transport Fund	\$ 66,651,000	\$ 70,497,000
Risk Management Fund	\$ 4,942,000	\$ 5,072,000
Office Services Revolving Fund:		
Mail	\$ 37,403,227	\$ 34,010,722
Bulk gas	28,622,669	32,608,254
Printing	13,708,058	13,875,456
Imaging	6,008,686	5,743,914
Warehouse	2,096,858	3,183,910
Delivery	2,239,193	2,030,934
Other	5,674,814	9,827,343
Total Office Services Revolving Fund	<u>\$ 95,753,505</u>	<u>\$101,280,533</u>

Source: The OAG prepared this exhibit using information obtained from DTMB.

DESCRIPTION

The SWCAP is the mechanism by which the State identifies, summarizes, and allocates unbilled indirect costs in a logical and systematic manner. The SWCAP also includes financial and billing rate information for billed central service costs directly charged to agencies or funds through internal service funds and for building occupancy costs through the General Fund. The State's SWCAP is established in accordance with the U.S. Office of Management and Budget* (OMB) *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance*) to obtain reimbursement from the federal government for Statewide indirect costs.

The State submits to HHS a proposed SWCAP based on estimated costs and a final SWCAP based on actual costs from a prior period. HHS is the cognizant agency that annually approves the SWCAP and negotiates the Cost Allocation Agreement with DTMB, establishing Statewide indirect costs for the State's operating departments. The Statewide indirect costs are established on a fixed with carry-forward basis*. The most recent Cost Allocation Agreement approved indirect costs for fiscal year 2018 and included estimated costs for the fiscal year 2018 SWCAP and carry-forward costs from the fiscal year 2016 final SWCAP.

DTMB provides the approved Statewide indirect costs to the State's operating departments for allocation to their federal assistance programs. Approved Statewide indirect costs provided to operating departments and other funds for fiscal year 2017 were \$119.2 million.

Operating departments are required by Section 18.1460 of the *Michigan Compiled Laws* (Public Act 431 of 1984) to establish departmental indirect cost rates and to charge indirect costs to awards, contracts, and grants. The departmental indirect costs may include Statewide indirect costs as determined by each operating department's method of billing indirect costs for different federal assistance programs.

* See glossary at end of report for definition.

AUDIT SCOPE, METHODOLOGY, AND OTHER INFORMATION

AUDIT SCOPE

To examine the SWCAPs and other records for fiscal years 2016 and 2017. We conducted this performance 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. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

PERIOD

Our audit procedures, which included a preliminary survey, audit fieldwork, report preparation, and quality assurance, generally covered October 1, 2015 through September 30, 2017.

METHODOLOGY

We conducted a preliminary survey to gain an understanding of the SWCAP and interagency billing processes and internal control in order to establish our audit objectives and methodology. During our preliminary survey, we:

- Interviewed DTMB management and staff to obtain an overall understanding of the SWCAP and internal service funds, including DTMB's interagency billing processes, controls, and involvement in the process for preparing the SWCAP reports.
- Reviewed applicable federal regulations and State laws.
- Analyzed the internal service fund expenditure and revenue records.
- Met with the consultant who prepares the SWCAP regarding the processes of obtaining data and preparing the SWCAP.

OBJECTIVE #1

To assess the effectiveness of DTMB's efforts to establish and implement the SWCAP.

To accomplish this objective, we:

- Identified key federal and State regulations.
- Validated our understanding of DTMB's interagency billing process by reviewing a random sample of 10 of 75 State restricted funds charged to the SWCAP to ensure allowability.

* See glossary at end of report for definition.

- Reviewed the balance sheets required to be submitted by OMB's Uniform Guidance to ensure that working capital reserves for the internal service funds did not exceed more than 60 days of cash expenditures.
- Reviewed the federal approval and comments on the prepared fiscal year 2016 and 2017 SWCAP reports.

OBJECTIVE #2

To assess the effectiveness of DTMB's process for recovery of selected central service costs.

To accomplish this objective, we:

- Reviewed the services provided and the processes used by DTMB for billing State agencies for the costs of central services provided by the internal service funds and the General Fund.
- Examined controls over billings for services provided through the internal service funds and building occupancy charges.
- Reviewed a random sample of 66 billings from all service areas (see Exhibit #2) to determine if the billings were based on correct rates and if agencies were properly billed based on the services provided. To ensure completeness, we judgmentally allocated our sample items to the service areas. We did not identify any exceptions in our sample items.
- Performed trend analyses on rate changes.
- Observed the voting process at two rate-setting committee meetings.
- Traced central service departments' financial reports to the accounting records.

CONCLUSIONS

We base our conclusions on our audit efforts and any resulting material conditions* or reportable conditions*.

When selecting activities or programs for audit, we direct our efforts based on risk and opportunities to improve State government operations. Consequently, we prepare our performance audit reports on an exception basis.

* See glossary at end of report for definition.

**AGENCY
RESPONSES**

Not applicable.

**PRIOR AUDIT
FOLLOW-UP**

Our prior performance audit of the Statewide Cost Allocation Plan and Interagency Billing Processes, Department of Technology, Management, and Budget, issued in October 2014, contained no findings.

**SUPPLEMENTAL
INFORMATION**

Our audit report includes supplemental information presented as Exhibits #1 and #2. Our audit was not directed toward expressing a conclusion on this information.

GLOSSARY OF ABBREVIATIONS AND TERMS

central service costs	Central services billed to benefiting agencies.
DTMB	Department of Technology, Management, and Budget.
effectiveness	Success in achieving mission and goals.
fixed with carry-forward basis	A basis for establishing Statewide indirect costs whereby the costs are estimated in the Cost Allocation Agreement and are adjusted for actual costs in a later year.
HHS	U.S. Department of Health and Human Services.
indirect costs	Costs incurred for a common or joint purpose that benefit more than one program or function.
internal control	The plan, policies, methods, and procedures adopted by management to meet its mission, goals, and objectives. Internal control includes the processes for planning, organizing, directing, and controlling program operations. It also includes the systems for measuring, reporting, and monitoring program performance. Internal control serves as a defense in safeguarding assets and in preventing and detecting errors; fraud; violations of laws, regulations, and provisions of contracts and grant agreements; or abuse.
internal service fund	A fund established to account for financial transactions for services provided by a State agency to other State agencies.
IT	information technology.
material condition	A matter that, in the auditor's judgment, is more severe than a reportable condition and could impair the ability of management to operate a program in an effective and efficient manner and/or could adversely affect the judgment of an interested person concerning the effectiveness and efficiency of the program. Our assessment of materiality is in relation to the respective audit objective.
OAG	Office of the Auditor General.

performance audit	An audit that provides findings or conclusions based on an evaluation of sufficient, appropriate evidence against criteria. Performance audits provide objective analysis to assist management and those charged with governance and oversight in using the information to improve program performance and operations, reduce costs, facilitate decision-making by parties with responsibility to oversee or initiate corrective action, and contribute to public accountability.
reportable condition	A matter that, in the auditor's judgment, is less severe than a material condition and falls within any of the following categories: an opportunity for improvement within the context of the audit objectives; a deficiency in internal control that is significant within the context of the audit objectives; all instances of fraud; illegal acts unless they are inconsequential within the context of the audit objectives; significant violations of provisions of contracts or grant agreements; and significant abuse that has occurred or is likely to have occurred.
SWCAP	Statewide Cost Allocation Plan.
Uniform Guidance	Title 2 U.S. <i>Code of Federal Regulations</i> Part 200, <i>Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards</i> . The Uniform Guidance, which was officially implemented in December 2014 by the Council on Financial Assistance Reform, establishes uniform cost principles and audit requirements for federal awards to nonfederal entities and administrative requirements for all federal grants and cooperative agreements. The Uniform Guidance supersedes guidance from earlier OMB circulars.
U.S. Office of Management and Budget (OMB)	A cabinet-level office that assists the President in overseeing the preparation of the federal budget and in supervising its administration in executive branch agencies.



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