

Information and Telecommunications Services Infrastructure Operating and Maintenance Costs

Management Audit

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INTRODUCTION AND BACKGROUND

The management audit of the infrastructure operating and maintenance (O&M) costs was requested by the Metropolitan King County Council and was included in the 1998 Auditor's Office work program. The audit was prompted by council concerns regarding increases in annual O&M costs for the county's wide area network (WAN) and e-mail systems, which together, represents "infrastructure"

services.

The Information and Telecommunications Services (ITS) Division, within the Department of Information and Administrative Services, provides infrastructure and other information technology services to other county agencies. ITS recovers its costs by charging other county agencies for the services it provides. The Information and Telecommunications Services Fund, an internal service fund, accounts for the services that ITS provides to other county agencies.

AUDIT OBJECTIVE

The audit objectives were to determine the adequacy of the methods used to develop the budget and track costs for the county's annual infrastructure O&M expenditures, as well as to compare the estimated versus actual expenditures to determine the reasonableness of the budget process.

GENERAL CONCLUSION

The general conclusion of this audit is that ITS has not implemented sound cost accounting procedures or adequate financial policies and controls over infrastructure O&M expenditures. As a result, rates established for various services do not reflect the actual costs of services, and the rates include costs that have been inappropriately allocated among county agencies.

MAJOR FINDINGS AND RECOMMENDATIONS

Finding 1. [Inadequate Cost accounting procedures and financial controls have prevented information and telecommunications services staff from identifying the full cost of each specific service and establishing accurate rates.](#)

ITS has not adequately isolated and monitored the costs to provide various specific services. The primary reason for this deficiency is that the cost centers that ITS uses to track its expenditures do not relate to specific functional areas of ITS. Thus, there is a high degree of uncertainty regarding which costs are actually associated with which service. Consequently, the rates established by ITS to recover the cost of services provided do not accurately reflect the cost of each service and the costs for some services are subsidizing the costs of other services. (See recommendations under Finding 4).

Finding 2. [Revenues for infrastructure services exceeded actual expenditures by an estimated \\$1.3 to \\$1.6 million, but the excess revenues were added to the fund balance without adjusting the rates charged to county agencies.](#)

ITS collects revenues from all county agencies to which it provides infrastructure services. The rates that ITS charges for these services are based on budgeted rather than actual expenditures, although actual infrastructure expenses have been substantially less than the budgeted amounts. Consequently, revenues collected exceeded the actual costs of providing the service. Audit staff estimate that actual infrastructure expenses were approximately \$1.3 to \$1.6 million less than the budgeted estimate in 1997. Moreover, ITS did not subsequently adjust the rates to reflect these lower costs, and thus overcharged the county agencies for infrastructure services. These excess revenues were accumulated in the ITS internal service fund balance and were used to subsidize other ITS services. (See recommendations under Finding 4.)

Finding 3. County agencies were overcharged for infrastructure services because the rates included noninfrastructure costs. In addition, the wide area network rates included e-mail costs that should have been charged to users through a different allocation method.

In addition to the fact that infrastructure costs were overstated, not all of the costs factored into the infrastructure rates were related to either WAN or e-mail. Audit staff found that staffing and/or support costs of analysts who are functionally separate from infrastructure were included in the infrastructure rates. Moreover, the audit found that WAN rates included support costs, such as supplies and equipment, and debt service costs which should have been allocated to e-mail rates. (See recommendations under Finding 4.)

Finding 4. Substantial differences existed between the budgeted and actual account expenditures because the Information and Telecommunications Services Division did not use historical spending information to estimate future financial needs.

In connection with the analysis of infrastructure costs, audit staff compared budgets to actual costs for all the expenditure accounts of the ITS Network Services cost center. (See Appendix 1, page 27, and Exhibit B, page 11). The analysis showed substantial differences between the budgeted and recorded expenditures for specific accounts. For example, in 1997, telephone and telegraph expenditures exceeded the budget by \$446,745 (1,701%) and computer supplies expenditure exceeded the budget by \$94,296 (138%).

These significant discrepancies were due to the fact that ITS management inadequately monitors actual expenditures against the budget and does not use historical spending information as a basis for estimating future financial needs. Additionally, ITS's accounting procedures and financial controls are inadequate to identify and correct misclassifications and other discrepancies.

The audit recommended that ITS management establish a cost accounting system that isolates and monitors all relevant costs associated with providing each specific service, prepare its budget using categories that are consistent with the actual expenditures, and monitor actual expenditures and use actual spending patterns as a basis for preparing a realistic budget. The audit further recommended that ITS management ensure that only appropriate costs are included in the

infrastructure rate and discontinue its practice of accumulating excess infrastructure revenue in the ITS internal service fund balance.

Finding 5. *Inadequate administrative internal controls over infrastructure expenditures have resulted in unauthorized expenditures.*

During the review of the Network Service s detailed expenditures, audit staff noted a number of payments that circumvented the county code and internal policies, or at a minimum, indicated inadequate management oversight.

Such payments included:

- In at least two instances, professional services contracts, both in excess of \$10,000, were obtained without an appropriate bidding/contractual process,
- Lack of documentation justifying reimbursement to employees for training, including a reimbursement of \$5,250 to an employee who began the training course while he was a temporary contract worker,
- lack of accountability over fixed assets, primarily computer hardware and software,
- use of county funds for refreshments served during routine staff meetings,
- inadequate documentation for travel authorization and reimbursement, and
- unauthorized payment of \$2,500 in finder s fees paid to a temporary services agencies for five workers later hired by King County as regular employees (an additional \$6,000 was similarly paid by other "Metro" agencies).

The audit recommended that ITS management implement administrative internal controls to increase accountability and ensure that purchases of goods and services comply with the county s purchasing rules and that the county receive value for its expenditures. The audit further recommended that ITS management initiate action to recover payments for the unauthorized training reimbursement and the finder s fees.

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