

State of Rhode Island and Providence Plantations

Department of Administration
BUREAU OF AUDITS
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January 9, 2015

Mr. Jack Landers
Chief Information Officer
Division of Information Technology
One Capitol Hill
Providence RI 02908

Dear Mr. Landers:

The Bureau of Audits has completed its audit of the Division of Information Technology's mail and delivery service expense allocation process. The audit was conducted in accordance with Rhode Island General Law (RIGL) §35-7-3. The recommendations included herein have been discussed with members of management, and we considered their comments in the preparation of this report.

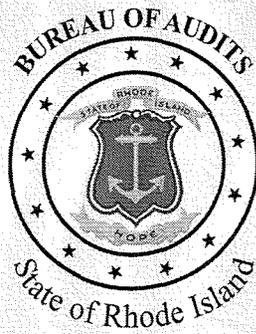
Rhode Island General Law §35-7-3(b), entitled *Audits performed by bureau of audits*, states that, "Within twenty (20) days following the date of issuance of the final audit report, the head of the department, agency or private entity audited shall respond in writing to each recommendation made in the final audit report." Accordingly, management submitted its response to the audit findings and recommendations on November 21, 2014, and such response is included in this report. Pursuant to this statute, the Bureau may follow up regarding recommendations included in this report within one year following the date of issuance.

We would like to express our sincere appreciation to the staff of the Division of Information Technology for the cooperation and courtesy extended to the members of our team during the course of this audit.

Respectfully yours,

Michael Sprague, CIA
Deputy Chief

c-Michael DiBiase, Director, Department of Administration
Honorable Daniel DaPonte, Chairperson, Senate Committee on Finance
Honorable Raymond Gallison, Chairperson, House Finance Committee
Dennis Hoyle, CPA, Auditor General
Dorothy Z. Pascale, CPA, Chief, Bureau of Audits



Executive Summary

Why the Bureau Did This Review

At the request of a state department, the Bureau has conducted an audit of the mail expense allocation process and procedures associated with the distribution of interoffice and US mail. The purpose of this audit is to determine if the cost allocation is equitably distributed and the program operates and is managed efficiently.

Background Information

The Division of Information Technology (DoIT) is responsible for the collection and distribution of US and interoffice mail throughout various state departments and agencies. DoIT incurs expenses associated with the collection, processing, and distribution of mail. The expenses allocated to each department and agency include:

- The cost of postage
- Messenger service currently outsourced to a vendor (ISI)
- Equipment maintenance
- Personnel and benefits costs

These costs incurred by DoIT directly relate to the service provided and, therefore, should be allocated to the serviced departments and agencies in a fair and equitable manner.

Recommendations for a more efficient and effective process are to:

- Periodically review and adjust the expenditure allocation
- Migrate the allocation process from the decades old mainframe-based system to a modern easily customizable system.

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Objective and Scope

The Bureau of Audits (Bureau) conducted an audit of the Division of Information Technology's (DoIT's) allocation of expenses associated with the collection and distribution of interoffice and US mail. The purpose of this audit was to determine if expenditures associated with the process of collecting and distributing the mail were being equitably distributed to the various agencies and departments that use the service, and if this allocation was performed in an efficient manner.

Methodology

In order to accomplish the audit objectives outlined above, we obtained a thorough knowledge of how the mail allocation is executed. In order to obtain an understanding of the process we:

- Interviewed DoIT management and staff
- Gained an understanding of procedures used to calculate the expense to be distributed
- Thoroughly reviewed the process in place and available inputs to the process
- Researched the equipment and software in use
- Gained an understanding of existing equipment capabilities
- Tested and recalculated a sample allocation

Introduction

DoIT is responsible for the pickup and delivery of both interoffice and US mail at many of the state agencies and departments. DoIT incurs expenses associated with the collection, processing, and distribution of interoffice and US mail. These costs incurred by DoIT relate directly to the mail service provided and, therefore, should be allocated to the participating departments and agencies in a fair and equitable manner. The total cost to be allocated is comprised of:

- Postage expenses
- Messenger service (currently outsourced to a vendor)
- Equipment maintenance
- Personnel and benefits costs

DoIT uses a per-piece surcharge to allocate the total cost. The per-piece surcharge is calculated by dividing the prior year total mail cost (less postage) by the prior year's volume of mail. Each department's or agency's actual monthly mail volume is then multiplied by the per-piece rate to calculate the monthly mail allocation to each department or agency. The current per-piece charge is 13.9 cents. The per-piece surcharges are accumulated by department or agency, and the total charge is allocated through the State's accounting system.

Recommendations for Improved Controls and Management Responses

Periodically Review Allocation of Overhead Expenditure Rates

Appropriate business practice suggests a stable approach to distributing actual costs and related overhead, rather than a process that results in a series of surpluses and deficits. During July of 2014, the Department of Administration's Central Business Office contacted the supervisor of mail operations and informed him that the total amount of the mail operation allocation was insufficient, resulting in a deficit balance to the mail program budget. The Central Business Office then supplied the mail operations supervisor with a detailed listing of the costs associated with the operations. The mail room supervisor subsequently calculated a new surcharge rate (13.9 cents) and adjusted the allocation to reflect this rate.

Prior to this adjustment the surcharge rate was 9.9 cents. The mail operations supervisor represented to the Bureau that the 9.9 cent surcharge rate had been in effect for "years" and that the calculation that was used to arrive at the 9.9 cent figure was similar to the method recently employed. The 9.9 cent rate had been sufficient to cover the mail operations expenses and overhead in previous years and had, in fact, generated a surplus.

The expenses allocated for mail operations should be closely tied to the actual expenses and overhead incurred. The current methodology and process results in surpluses and deficits to the program budget.

Recommendations:

- 1.) The mail operations supervisor should establish a procedure for the periodic review of actual expenditures, overhead, and mail volume in order to adjust the surcharge rate to an amount that is representative of current conditions. This methodology should use budgeted expenditures and consider any surplus or deficit from the prior period to improve accuracy.

Management Responses: Agreed. Thomas O'Donnell will contact the Department of Administration's Central Business Office annually at the end of July to get the actual expenses of the Mailroom to perform the calculation against the number of pieces processed that same fiscal year to get an updated per piece surcharge so it's current, and we don't go years without adjustment. This should result in limited surpluses and deficits.

Responsible Party: Thomas O'Donnell

Completion Date: July of 2015.

Fully Utilize Existing Mail Equipment to Gain Operational Efficiencies

The current method of allocating the mail operations costs is based on a decades old computer model written in a mainframe language that is difficult to support in the current state information technology environment. The State uses modern mailing equipment that offers many enhanced features for the tracking and distribution of information associated with postage and other mail operations expenditures.

The allocation process begins with some of the basic information collected by the mail processing system being transferred to a text file and copied to a CD. The information on the CD is then uploaded to a mainframe data set, and 22 separate COBAL programs are run in succession to generate the allocation and other associated outputs. These outputs include data files that are copied to floppy disks and distributed to agency contacts, some of whom do not use the information in any way.

The primary output of the mainframe processing is a text file that is emailed to the Accounts and Control group. Accounts and Control then process this file through an Access database in order to get it into a format that is importable into the State's accounting system.

Recommendation:

- 2.) The mail operations supervisor should utilize the available technology associated with the existing mail equipment to develop a new allocation process that eliminates the use of the mainframe computer model. The solution should be designed to produce a file that can be directly imported into the State's accounting system. Additionally, this new process should convey sufficient information to the accounting system so as to eliminate the need for a separate reporting process to the participating departments and agencies.

Management Response: Agree with reservations; with so many programs, surprises could pop up that we might not be able to work around.

Responsible Party: Thomas O'Donnell working with DoIT Programming & Accounts & Control

Completion Date: July 1, 2015