

Selected-Scope Financial Audit Report

**Department of Corrections
Three Fiscal Years Ended June 30, 1999**



Financial Audit Division

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OLA's Financial Audit Division annually audits the state's financial statements and, on a rotating schedule, audits agencies in the executive and judicial branches of state government, three metropolitan agencies, and several "semi-state" organizations. The division also investigates allegations that state resources have been used inappropriately.

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- Promote Accountability,
- Strengthen Legislative Oversight, and
- Support Good Financial Management.

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OFFICE OF THE LEGISLATIVE AUDITOR

State of Minnesota • James Nobles, Legislative Auditor

Report Summary

Selected-Scope Financial Audit Report

Department of Corrections

Three Fiscal Years Ended June 30, 1999

The Department of Corrections' internal controls provided reasonable assurance that assets were safeguarded, expenditures were accurately recorded in the state's accounting and payroll systems, and financial transactions complied with applicable finance-related legal requirements and management's authorization.

The audit report contained four findings with recommendations for improvement.

- The department did not promptly cancel accounting system access for six staff who terminated employment or transferred to other facilities. We recommended their access rights be immediately cancelled. (Finding 1, page 7)
- Three facilities did not independently verify payroll transactions entered into the payroll system. Separation of duties was recommended to provide for independent scrutiny. (Finding 2, page 11)
- The Minnesota Correctional Facility-Lino Lakes overpaid one employee \$9,873 due to incorrect input of a special payment transaction. We recommended the department seek reimbursement of the overpayment and work with the Attorney General's Office to ensure recovery of funds. (Finding 3, page 12)
- Finally, we found the department lacked documentation to support its decision to renegotiate a central contract for inmate medical services. The department anticipated costs savings under a managed care contract; however, a renegotiated contract required a 10 percent price increase per inmate. Improved documentation was recommended to support its decision making and selection of contractors. (Finding 4, page 16)

Financial Audit Reports address internal control weaknesses and noncompliance issues found during our audits of state departments and agencies. The scope of our audit work at the Department of Corrections' central office and facilities included financial management and budget controls, payroll, and administrative and operating expenditures. This has not been a comprehensive audit of the Department of Corrections. The department's response is included in the report.

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Audit Participation

The following members of the Office of the Legislative Audit prepared the report:

Claudia Gudvangen, CPA	Deputy Legislative Auditor
Brad White, CPA, CISA	Audit Manager
Michael Hassing, CPA	Auditor-In-Charge
Steve Johnson, CPA	Auditor
Dan Kingsley	Auditor
Pat Ryan	Auditor
April Snyder	Auditor
Ching-Huei Chen	Audit Intern

Exit Conference

We discussed the findings and recommendations with the following representatives of the Department of Corrections at the exit conference held on June 28, 2000:

Sheryl Ramstad Hvass	Commissioner
Dennis Benson	Deputy Commissioner
Terry Carlson	Assistant Commissioner, Management Services Division
Steve Buchal	Finance Director



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State of Minnesota • James Nobles, Legislative Auditor

Representative Dan McElroy, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Ms. Sheryl Ramstad Hvass, Commissioner
Department of Corrections

We have audited selected financial activities within the Department of Corrections for the period July 1, 1996, through June 30, 1999, as further explained in Chapter 1. Our audit scope included budgetary controls and general financial management, payroll, and certain operating expenditures, including rent, utilities, professional and technical services, supplies, and equipment. The audit objectives and conclusions are highlighted in the individual chapters of this report. We emphasize that this has not been a comprehensive audit of the Department of Corrections.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, as issued by the Comptroller General of the United States. Those standards require that we obtain an understanding of management controls relevant to the audit. The standards also require that we design the audit to provide reasonable assurance that the Department of Corrections complied with provisions of laws, regulations, and contracts significant to the audit. The management of the Department of Corrections is responsible for establishing and maintaining the internal control structure and for compliance with applicable laws, regulations, and contracts.

This report is intended for the information of the Legislative Audit Commission and the management of the Department of Corrections. This restriction is not intended to limit the distribution of this report, which was issued as a public document on July 20, 2000.

/s/ James R. Nobles

James R. Nobles
Legislative Auditor

/s/ Claudia J. Gudvangen

Claudia J. Gudvangen
Deputy Legislative Auditor

End of Fieldwork: April 14, 2000

Report Signed On: July 17, 2000

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Department of Corrections

Chapter 1. Introduction

The Department of Corrections was created in 1959 to consolidate state correctional functions under one agency. The department is a service and regulatory agency overseeing state correctional facilities and community programs for adjudicated adult and juvenile felons. The department is led by Sheryl Ramstad Hvass, who was appointed commissioner by Governor Ventura in February 1999. During fiscal years 1997 and 1998, the department operated under the direction of former Commissioner Gothriel La Fleur.

The department currently operates ten correctional facilities, including seven for adults, two for juveniles, and one serving both adults and juveniles. As of December 1999, adult prison populations total more than 5,900 inmates. Juvenile offenders number approximately 180. The department supervises more than 14,600 offenders on probation, supervised release, and parole. Table 1-1 shows the facilities, custody level, average daily population and full-time equivalent staff for each facility.

Table 1-1
Department of Corrections
Facility Information
Fiscal Year 1999

Minnesota Correctional Facility (MCF)	Custody Level (Note 1)	Average Daily Population	Staff
Adult:			
MCF-Faribault	Medium	975	382
MCF-Lino Lakes	Medium/Minimum	1,001	492
MCF-Oak Park Heights	Maximum	373	282
MCF-St. Cloud	Close	753	392
MCF-Shakopee	Multiple (Female)	279	184
MCF-Stillwater	Close	1,263	475
MCF-Moose Lake	Medium	737	288
MCF-Willow River (Note 2)	Minimum (CIP)	282	40
Juvenile:			
MCF-Red Wing	Juvenile	180	178
Thistledew Camp	Juvenile	54	52

Note 1: Adult correctional facilities have a six level custody classification ranging from minimum to maximum custody. Close confinement is greater than medium custody but less than maximum security.

Note 2: MCF-Willow River operates the Challenge Incarceration Program (CIP) and is administered with MCF-Moose Lake.

Note 3: The department closed MCF-Sauk Center during fiscal year 1999, and the new MCF-Rush City opened in January 2000.

Source: Minnesota Department of Corrections (www.corr.state.mn.us) and 2000-2001 Biennial Budget Report.

The department is also responsible for approximately 230 inmates on work release, housed at contracted facilities, or in county jails. The department employs over 3,700 employees.

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The department is organized into three main divisions: adult facilities, community and juvenile services, and management services. Additionally, units exist in the areas of investigations, interagency management, correctional industries, and medical services. The crime victim services unit was part of the Department of Corrections through the end of fiscal year 1998, but was transferred out of the department beginning July 1, 1998. The American Correctional Association (ACA) has accredited eight of the department's correctional institutions. In addition, the department's central office, adult and juvenile release functions, and adult and juvenile field services operations are accredited.

We concentrated our audit of the department on administrative costs including payroll and selected general operating expenditures. Table 1-2 summarizes departmental administrative expenditures for fiscal years 1997 through 1999.

Table 1-2
Department of Corrections
Summary of Administrative Expenditures
Budget Fiscal Years 1997, 1998, and 1999

Expenditures:	FY 1997	FY 1998	FY 1999
Employee Payroll	\$160,388,754	\$172,887,498	\$186,724,183
Rent	1,545,353	1,580,304	2,075,741
Utilities	5,935,269	5,426,304	5,109,733
Professional/Technical Services	19,849,421	18,278,281	19,783,651
Supplies	35,233,514	34,500,442	33,776,554
Equipment	9,076,640	4,707,609	7,710,400
Purchased Services	3,068,277	4,223,742	5,304,905
Other Administrative Expenditures	<u>4,896,881</u>	<u>4,412,159</u>	<u>4,412,159</u>
 Total Administrative Expenditures	 <u>\$336,867,005</u>	 <u>\$345,490,105</u>	 <u>\$367,831,230</u>

Source: Minnesota Accounting and Procurement System (MAPS) reports for fiscal years 1997, 1998, and 1999.

We audited administrative costs of the central office and the following eight facilities:

- Faribault
- Lino Lakes
- Moose Lake/Willow River
- Oak Park Heights
- Red Wing
- St. Cloud
- Shakopee
- Stillwater

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Chapter 2. Financial Management and Budgetary Controls

Chapter Conclusions

The Department of Corrections' central office and correctional facilities operated within their available resources and had an effective process to monitor revenue and expenditure budgets. The department had adequate controls, enhanced by an internal peer review process, to provide reasonable assurance that financial activities were authorized and properly recorded on MAPS. Finally, we found that the department had provided reasonable security controls over access to its computerized business systems. However, we identified some department staff that had terminated or transferred to other facilities, yet they continued to have access to initiate accounting system transactions.

The Department of Corrections receives the majority of its funding for operations from General Fund appropriations. In fiscal year 1999, General Fund appropriations financed 84 percent of the department's administrative expenditures. In addition, the department collected various dedicated receipts, including federal grants and revenue from the sale of MINNCOR Industries products.

The department allocates state appropriations to the correctional facilities based on various factors, including prior year allocation, proposed spending plan, and inmate population estimates. Table 2-1 shows the final base level allocation to the facilities for fiscal year 1999.

Table 2-1
Department of Corrections
General Fund Appropriations
Fiscal Year 1999 Facility Base Allocations

Minnesota Correctional Facility (MCF)	FY 1999 Base Allocation
Stillwater	\$32,185,237
Lino Lakes	30,234,595
Faribault	25,894,285
St. Cloud	25,129,504
Moose Lake	21,131,535
Oak Park Heights	17,143,863
Shakopee	11,000,044
Red Wing	10,535,720
Sauk Center	6,305,664
Willow River	3,135,431
Rush City	250,000
Thistledew Camp	18,000

Note: Facilities receive additional appropriation funding for salary carryover, increases in employer retirement contributions, and special initiatives such as bed expansion.

Source: Minnesota Department of Corrections' Fiscal Services Unit.

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The statewide accounting system (MAPS) is the primary accounting system for the central office and all correctional facilities. The facilities input financial transactions directly into MAPS.

Although the central office is ultimately responsible for department-wide financial activity, the individual facilities function autonomously and are expected to be fiscally responsible and operate within their respective allocations. Quarterly budget status meetings are held with the central office and the facilities to discuss budget or other operational concerns. Each facility has established their own budget control practices to monitor spending. Typically, facilities produce accounting system reports identifying budget versus actual expenditures for payroll and nonpayroll costs. These budget reports are distributed to facility supervisors and management to assist in making operating decisions. Facilities have discretion to transfer funds between nonpayroll categories. However, the facilities must obtain central office approval when making budget changes between payroll and nonpayroll categories.

To facilitate its monitoring of financial practices, the department has initiated an effective internal peer review process. A team of facility finance directors and the central office operations director conduct on-site reviews of financial policies and internal control practices at the individual facilities. Each team prepares a report on the results of its review. As of April 2000, five facilities had been reviewed.

Audit Objectives and Methodology

Our review of the Department of Corrections overall financial management and budgetary controls focused on the following objectives:

- Did the department establish internal controls to provide reasonable assurance that financial activities were authorized and properly recorded on the MAPS accounting systems?
- Did the department establish internal controls to provide reasonable assurance that it operated within available financial resources in compliance with applicable legal provisions and management's authorization?

To answer these questions, we interviewed department personnel at the central office and at the facilities to gain an understanding of the overall financial management and budget process. We gained an understanding of management controls, such as budget monitoring and an internal peer review process in place over financial activities. In addition, we obtained MAPS security profiles from the Department of Finance to assess system access rights for central office and facility staff responsible for processing financial transactions.

Conclusions

The Department of Corrections operated within its available resources and had an effective process to monitor its revenue and expenditure budgets. The central office and facilities had controls in place to provide reasonable assurance that financial activities were authorized and properly recorded on MAPS. The department established an effective internal peer review

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process to evaluate internal controls at their various facilities. The department provided reasonable computer system access to its employees. However, we determined that two department staff had terminated and four staff transferred to other facilities, yet they still had access to initiate accounting system transactions.

1. The risk of inappropriate transactions is increased by not promptly canceling computer system access for staff who have terminated or transferred employment.

The department did not ensure that employees' computer system access was promptly terminated when no longer needed. We found six correctional facility staff whose MAPS security rights were not cancelled upon termination or transferred to another facility. The individual facilities are responsible for determining user access needs based on current job responsibilities. The facilities must promptly notify central office when employee access rights should be added or deleted. The department should work with its facilities to ensure employee access is modified when job responsibilities change. Our audit revealed that two former accounting staff at Lino Lakes and Shakopee had the ability to record accounting transactions five to six months after terminating employment. Similarly, we noted four staff that had transferred to other correctional facilities or state agencies, yet access privileges were not cancelled. Although we found no instances of abuse, not promptly removing security rights increase the risk of unauthorized access by these users.

Recommendation

- *The Department of Corrections should immediately cancel computer access for the six former staff. The department should improve security access controls by promptly canceling access rights for staff who have terminated employment or transferred to other facilities or state agencies.*

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Chapter 3. Employee Payroll

Chapter Conclusions

The Department of Corrections' internal controls provided reasonable assurance that employee payroll transactions were adequately documented and approved and accurately recorded on the state's accounting system. However, we noted that three facilities did not provide for independent review of biweekly SEMA4 payroll reports to verify the accuracy of processed payroll transactions. For the items tested, the department compensated its employees in accordance with applicable bargaining unit provisions, except we found that one employee received an overpayment of \$9,873 due to erroneous input of a Fair Labor Standards Act settlement payment.

Employee payroll represents the largest administrative expenditure for the Department of Corrections. The department paid approximately \$520 million for payroll costs during the three fiscal years ended June 30, 1999.

The department employs over 3,700 employees throughout the state. Of this total, approximately 77 percent work at the correctional facilities. The department must provide 24-hour security at the facilities 365 days a year. Department employees belong to various unions that include the following compensation plans:

- American Federation of State, County, and Municipal Employees (AFSCME)
- Minnesota Association of Professional Employees (MAPE)
- Middle Management Association (MMA)
- Managerial Plan
- Commissioner's Plan
- Minnesota Nurses Association

The compensation plans allow for some unique payroll transactions for correctional employees. For example, the AFSCME bargaining unit provides additional compensation to correctional officers and guards for shift differential, premium overtime, and working on a holiday. In addition, special procedures apply to shift exchange.

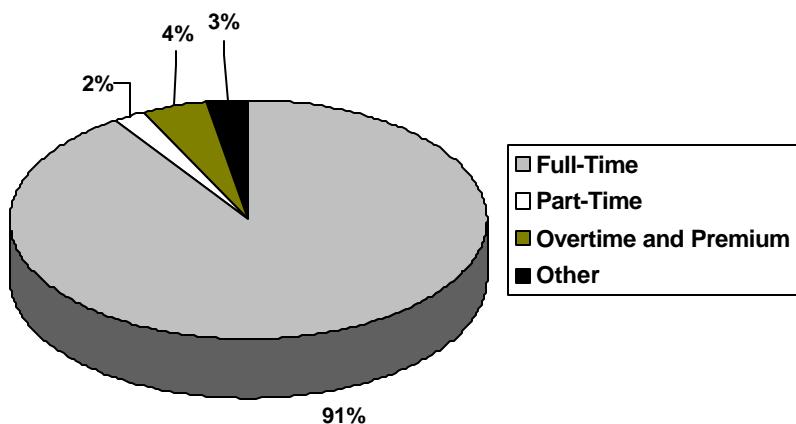
The Department of Corrections was involved in a department-wide employee grievance settlement in 1999 related to the Fair Labor Standards Act. The act requires overtime pay at time and a half for hours worked beyond the scheduled workweek. The department was required to compensate employees who reported to work early for shift rotation. The department negotiated a settlement in which employees were retroactively compensated at overtime rates for any hours

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worked outside the assigned schedule during a prior period. The department paid a total of \$2,348,649 to its employees as a result of this settlement.

Figure 3-1 shows the department's payroll for fiscal year 1999 summarized by type of pay.

Figure 3-1
Department of Corrections
Payroll Expenditures by Type
Fiscal Year 1999



Source: Minnesota Accounting and Procurement System (MAPS).

Table 3-2 summarizes payroll costs by facility for each fiscal year.

Table 3-2
Department of Corrections
Summary of Payroll Expenditures
Budget Fiscal Years 1997, 1998, 1999

Facility	1997	1998	1999
Central Office	\$ 32,149,264	\$ 35,808,454	\$ 45,500,857
Faribault	15,810,295	17,585,153	18,114,917
Lino Lakes	21,090,418	22,779,093	22,877,769
Moose Lake/Willow River	12,876,986	14,852,969	15,966,321
Oak Park Heights	13,389,969	13,733,484	13,949,809
Red Wing	7,606,202	7,923,109	8,852,992
Shakopee	7,746,389	8,283,534	8,717,545
St. Cloud	19,323,360	19,990,895	20,134,730
Stillwater	22,671,542	23,567,008	23,595,252
Other	<u>7,704,329</u>	<u>8,363,799</u>	<u>9,013,991</u>
Total	<u>\$160,368,754</u>	<u>\$172,887,498</u>	<u>\$186,724,183</u>

Source: Minnesota Accounting and Procurement System (MAPS).

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Audit Objectives and Methodology

The primary objectives of our review of payroll expenditures related to the following questions:

- Did department internal controls provide reasonable assurance that payroll transactions were documented, approved, and properly recorded on the state's SEMA4 personnel/payroll system?
- Were payroll expenditures in compliance with material finance-related legal provisions, including the state's various bargaining agreements?

To address these objectives, we made inquiries of the department's staff to gain an understanding of internal controls over payroll and personnel processing. We tested payroll transactions for proper documentation and authorization of hours worked and leave taken, payrates, and special transactions to determine if controls were properly functioning. We reviewed vacation and sick leave, overtime, shift differential, shift exchange, and severance payments at each of the institutions to ensure that compensation amounts were in agreement with employee union contracts. We also analyzed total compensation paid to individuals and investigated any significant variances from year to year. In addition, we tested the retroactive settlement payments related to the Fair Labor Standards Act.

Conclusions

The Department of Corrections' central office and correctional facilities had internal controls providing reasonable assurance that payroll expenditures were adequately documented and approved and accurately recorded in the state's accounting system. For the items tested, payroll transactions complied with applicable legal provisions and management's authorization.

However, as discussed in Finding 2, we found that three facilities did not perform an independent verification of transactions entered into the SEMA4 payroll system. We suggested that these facilities provide for an independent review of SEMA4 system output reports by an individual not responsible for input of these transactions. We also identified an overpayment of \$9,873 to one employee due to inaccurate input of a Fair Labor Standards Act settlement payment, as further discussed in Finding 3.

2. Three facilities did not independently verify payroll transactions entered into SEMA4.

Minnesota Correctional Facilities at Lino Lakes, Stillwater, and Moose Lake/Willow River did not assign an independent staff member the responsibility to verify payroll transactions posted on SEMA4. Payroll staff at these facilities entered hours worked and leave from timesheets and also entered special lump-sum or retroactive adjustment transactions. These same individuals also verified that the hours worked, leave taken, and special transactions were properly input using the SEMA4 Payroll Register. In essence, these payroll clerks verified their own input. Ideally, independent staff should verify payroll hours input and transactions processed in

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SEMA4. Without an independent verification, the department increases the risk that inaccurate posting of hours or special transactions could occur and go undetected.

Recommendation

- *Correctional facilities at Lino Lakes, Moose Lake/Willow River, and Stillwater should provide for an independent verification of payroll transactions processed in SEMA4.*

3. Minnesota Correctional Facility-Lino Lakes overpaid one employee \$9,873 due to incorrect input of a special retroactive settlement transaction.

The Lino Lakes correctional facility overpaid one employee by \$9,873 due to erroneous input of a Fair Labor Standards Act (FLSA) settlement payment. All Department of Corrections' facilities were involved in an employee grievance settlement in 1999. The act required each facility to compensate correctional officers who reported to work early for their scheduled shift. A settlement agreement provided overtime payments to correctional officers for hours worked outside their assigned schedule during a two-year period. Each facility calculated amounts due and made payments to eligible employees.

MCF-Lino Lakes used a two-year period from May 11, 1997, through May 11, 1999, for determining the payment required for the FLSA. MCF-Lino Lakes paid a total of \$479,008 to 296 employees. The range of individual payments was from \$49 to \$10,970. MCF-Lino Lakes followed procedures established by the department for determining the additional compensation owed to its employees. The department sent a questionnaire to all of its correctional officers requesting information related to early arrival for duty. The facility obtained actual payroll information for each employee from the state's payroll system. Based on the questionnaire and actual payroll data, the facility calculated the amount of additional compensation owed to employees.

MCF-Lino Lakes calculated a \$1,097 settlement payment for one of its correctional officers. A payment acknowledgement was sent to the employee with this amount. However, the facility mistakenly entered \$10,970 into the payroll system resulting in an overpayment of \$9,873. The facility did not identify this error during its biweekly verification process. As mentioned in Finding 2, the employee who entered these transactions into SEMA4 was also responsible for verifying the amounts posted. We feel that lump-sum settlement and retroactive adjustment transactions pose heightened risk and should receive extra review and scrutiny.

Recommendations

- *MCF-Lino Lakes should seek reimbursement of the \$9,873 that was incorrectly paid to one of its employees pursuant to the Fair Labor Standards Act settlement agreement. The department should work with the Attorney General's Office to ensure recovery of funds.*
- *The department should develop procedures for improved review and scrutiny of the SEMA4 payroll register when special transactions, such as lump-sum settlement payments and retroactive adjustments, are processed.*

Chapter 4. Operating and Administrative Expenditures

Chapter Conclusions

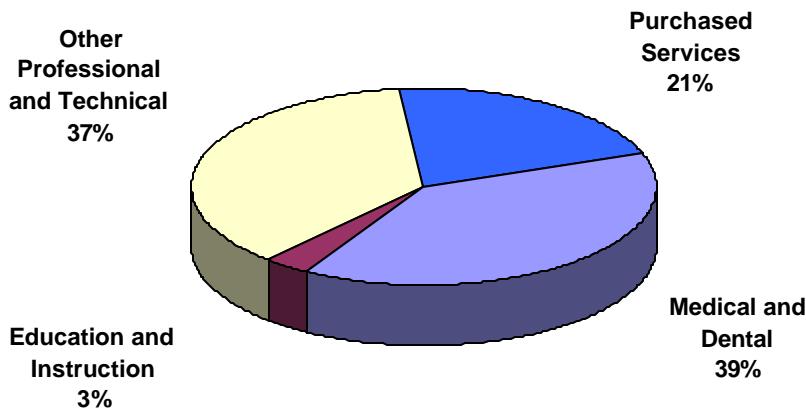
Internal controls at the Department of Corrections provided reasonable assurance that services, rent, utility, supply, and equipment expenditures were properly authorized and accurately paid and recorded in the accounting system. We found that the department properly procured goods and services, executed contracts, and accurately paid its vendors. However, we encountered problems with insufficient documentation related to the central medical contract that required a substantial price increase. For the transactions tested, we found that the department complied with material finance-related legal provisions and management policies.

In addition to payroll, the department spent over \$530 million on operating expenditures for the three years ended June 30, 1999. We reviewed selected administrative expenditures of the department, including payments for contracted professional and technical services, rent, utilities, purchased services, supplies, and equipment, as discussed in the following sections.

Contract Services

The department contracts with outside vendors and other state agencies to provide goods and services for central office and facility operations. Our audit focused on professional, technical, and other purchased services. Figure 4-1 shows the department's professional, technical, and other purchased services expenditures for fiscal year 1999.

Figure 4-1
Department of Corrections
Fiscal Year 1999 Services Expenditures by Type



Source: Minnesota Accounting and Procurement System (MAPS for Fiscal Year 1999).

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The department contracted for a variety of services, including architect and engineering, computer system development, education and instruction, medical services, and food service for inmates. All facilities work with system office staff to acquire fair and accurate contracts for the services needed. The department paid over \$70.5 million for contract services over the three-year period. Table 4-2 summarizes professional and purchased services expenditures for the central office and each facility for the three-year audit period.

Table 4-2
Department of Corrections
Expenditures for Services
Budget Fiscal Years 1997, 1998, 1999

<u>Facility</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>
Faribault	\$1,384,720	\$1,412,234	\$ 603,546
Lino Lakes	835,083	1,249,562	1,007,932
Moose Lake/Willow River	556,226	822,143	848,304
Oak Park Heights	690,150	725,497	423,710
Red Wing	345,434	358,008	235,547
Shakopee	326,623	450,445	320,273
St. Cloud	464,010	433,954	151,942
Stillwater	1,589,074	1,262,197	779,288
Other Facilities	180,434	247,792	354,981
Central Office:			
Medical Services	5,688,569	6,336,566	9,705,303
Other Professional Services	9,147,243	6,946,543	7,754,295
Purchased Services	1,407,881	1,937,417	2,372,490
Education and Instruction	322,251	319,665	530,945
Total	<u>\$22,937,698</u>	<u>\$22,502,023</u>	<u>\$25,088,556</u>

Note: Central office amounts include certain contractual arrangements serving all institutions.

Source: Minnesota Accounting and Procurement System (MAPS) for fiscal years 1997, 1998, and 1999.

One of the biggest changes occurred in the centralization of the medical services contract beginning in fiscal year 1999. The department negotiated a central managed care contract to provide medical services to all inmates. Previously, individual medical contracts were used by individual facilities, along with a central detention unit at Regions Hospital in St. Paul. The current medical contract is for approximately \$30 million over a three-year period. The central office monitors the contract and is responsible for making the premium payments to the medical provider. See Finding 4 for a further discussion of the centralized medical services contract.

Rent and Utilities

The Department of Corrections incurs rental costs for its central office space and numerous locations of field office staff. In addition to its main offices in St. Paul, the department rents office space throughout the state to support its field services and community corrections programs. The department spent an average of approximately \$1.7 million each fiscal year from 1997 through 1999 on space rental, mostly paid from the central office budget.

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Utilities is another major cost category for the department to provide heat, electricity, and water services for the individual facilities. Each of the facilities is designed differently and, as a result, has different utility needs. The individual facilities must work with their local utility suppliers to obtain the necessary services. The department spent \$16,471,306 on utility services for the three fiscal years ended June 30, 1999.

Supplies and Equipment

The department spent \$125,005,159 for various supply and equipment purchases for the three years ended June 30, 1999. Supplies include consumable materials and parts, food, supplies for resale in MINNCOR industries and facility canteen operations, and other general operating supplies. Major equipment expenditures include computer, security, and other surveillance equipment. Department equipment assets are recorded on a database and existence is periodically verified. Table 4-2 shows the department's expenditures for supplies and equipment summarized by fiscal year.

Table 4-2
Department of Corrections
Supply and Equipment Expenditures
Budget Fiscal Years 1997, 1998, and 1999

Facility	1997	1998	1999
Supplies:			
Central Office	\$11,824,510	\$13,745,345	\$13,633,438
Faribault	3,658,772	3,181,346	2,797,103
Lino Lakes	4,681,785	4,358,648	3,887,294
Moose Lake/Willow River	2,496,512	2,443,895	2,400,892
Oak Park Heights	1,684,042	1,202,747	1,536,100
Red Wing	1,290,304	806,289	1,214,167
Shakopee	1,131,209	1,249,760	1,234,066
St. Cloud	2,840,803	2,761,810	2,629,460
Stillwater	4,695,885	3,927,848	3,801,506
Other Facilities	929,692	822,752	642,529
Total Supplies	\$35,233,514	\$34,500,442	\$33,776,554
Equipment:			
Central Office	\$ 4,067,222	\$ 1,303,572	\$ 2,913,489
Faribault	1,109,597	818,845	772,870
Lino Lakes	805,357	703,039	589,123
Moose Lake/Willow River	864,580	512,669	616,525
Oak Park Heights	304,445	209,512	555,277
Red Wing	209,403	336,663	596,550
Shakopee	86,588	105,181	271,580
St. Cloud	572,709	377,352	808,873
Stillwater	675,881	265,122	439,217
Other Facilities	380,858	75,654	146,896
Total Equipment	\$ 9,076,640	\$ 4,707,609	\$ 7,710,400

Note: Central Office includes MINNCOR industries supplies for resale and equipment purchases.

Source: Minnesota Accounting and Procurement System (MAPS) for fiscal years 1997, 1998, and 1999.

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Audit Objectives and Methodology

We focused on the following objectives during our audit of services, rent, utility, supply, and equipment expenditures:

- Did the Department of Corrections' internal controls ensure proper authorization, accurate payment to vendors, and appropriate recording of operating and administrative expenditures in the accounting system?
- Did the department comply with material finance-related legal provisions and management policies?

The methodology used to evaluate these audit objectives included analytical review and testing of transactions and balances and tests of compliance. We met with staff from the central office and facilities to gain an understanding of internal controls over operating and administrative expenditures. Tests of controls and compliance determined whether specific internal policies and procedures operated effectively, and whether the facilities adhered to specific requirements and guidelines.

Conclusions

We found that internal controls over the Department of Corrections' operating and administrative costs provided reasonable assurance that expenditures were properly authorized and accurately paid and recorded in MAPS. For the items tested, the department properly procured goods and services, executed contracts, accurately paid its vendors, and complied with material finance-related legal provisions and management policies. However, as discussed in Finding 4, we encountered problems with insufficient documentation related to a medical contract that resulted in a substantial price increase.

4. The Department of Corrections did not document key decisions supporting its contract for medical services.

The department did not sufficiently document key decision factors when negotiating its managed care contract for inmate medical services. Competitive bids were initially solicited and a contractor selected, but the contractor subsequently required a large price increase. The department did not document several options it considered in its renegotiations. Without this documentation, we could not determine the reasonableness of the price increase and whether all options, including a possible rebid of the contract, were considered.

Historically, the department sought medical vendors for each area of needed service at the individual facilities. They also utilized a central detention unit at Regions Hospital in St. Paul. This resulted in many different contracts and costs and levels of services provided to the inmate population statewide. The individual facilities were responsible for monitoring numerous contracts and processing a large volume of medical bills and invoices. In order to develop consistent care across all facilities and to provide cost containment strategies, the department decided to solicit a centralized managed care contract for medical services. During January

Department of Corrections

1998, the department prepared a Request for Proposal to solicit bids covering medical services for all its correctional facilities. The proposal allowed for providers to bid on single or multiple services at individual facilities or statewide. The department's objective was to select the most competitive contract rate structure. This process resulted in over 58 proposals for the department to evaluate. Due to the complexity and diversity of the various proposals requiring comparison, the department hired a consultant with expertise in the field of managed health care. The consultant helped compare the bid proposals but the supporting analysis and tabulation grids were not retained in the department files. The department subsequently retrieved the documentation from the consultant for the audit. Several other qualitative factors were also not documented in department files making it impossible to evaluate the contracting decision. For example, the department had to consider the financial condition of the vendors and assess the impact the various options would have on current health care staffing at each facility. Another key financial factor in the decision to procure a central managed care contract was that termination of the existing detention unit at Regions Hospital cost the department \$388,235.

The department awarded a contract to Correctional Medical Services, Incorporated (CMS) to provide comprehensive delivery and administration of health care services to inmates incarcerated in state prison facilities. The contract was effective on July 1, 1998. On November 19, 1998, the vendor informed the department the contract was no longer viable, indicating annual contract losses of nearly \$2 million. Per section 7 of the original contract, the vendor could terminate the contract with a 90-day written notice. Rather than re-opening the bid process, the department negotiated additional terms in February 1999, which resulted in a 20 percent increase in the total contract price. Based on the contract estimates of number of inmates served, we calculated an increase of over 10 percent per inmate as shown in Table 4-3. This analysis was necessary since the amended contract covered more inmates than the original contract.

Table 4-3
Department of Corrections
Managed Care Contract Rates
Fiscal Years 1999, 2000, and 2001

	Original Contract	Amended Contract	Increase
FY 1999	\$ 8,096,000	\$ 9,429,822	\$1,333,822
FY 2000	8,419,840	10,332,700	1,912,860
FY 2001	<u>8,756,634</u>	<u>10,430,035</u>	<u>1,673,401</u>
Total	\$25,272,474	\$30,192,557	\$4,920,083
Inmates Covered (Note 1)	5,625	6,077	452
Price per Inmate	\$4,493	\$4,968	\$475
Percent Increase			10.5%

Note 1: If actual daily inmate populations exceed contract estimates, a \$2.75 daily per diem is assessed for each additional inmate.

Source: Auditor prepared from Department of Corrections' contract with CMS.

Department of Corrections

The department was unable to provide sufficient documentation to support its decision-making process. One could question the department's decision to renegotiate a substantial price increase with a vendor already under contract. In addition, determining whether the amended contract was a better option when compared to other health services proposals is a concern. Other options existed and numerous qualitative factors entered into the decision. While we recognize that health care costs have been volatile in recent years, without the necessary documentation, the reasonableness of the contracting decisions could not be assessed.

During our review, we noted that the department was required to develop a report on managed health care cost reductions in December 1998, pursuant to Minnesota Laws for 1998, Chapter 367, Section 23. The December report to the Legislature highlighted that the state would receive substantial savings due to cost reductions under the new contract with CMS. The department indicated that the reported cost savings were reduced from original estimates to reflect price increases it was renegotiating with CMS. The amended CMS contract was not finalized until February 1999. The department indicated it alerted the House Crime Prevention Committee and the Senate Crime Prevention and Judiciary Budget Division to the cost increases in its managed care inmate health services contract.

Recommendation

- *The Department of Corrections should maintain complete documentation to support its contracting decisions. Records and analysis completed by consultants should be retained in department files and qualitative aspects supporting key decisions should be documented.*

Department of Corrections

Status of Prior Audit Issues As of April 14, 2000

Most Recent Audit Report 99-5, issued in January 1999, examined the material components of the Minnesota Correctional Industries Program (MINNCOR) as it related to the Statewide Audit of the State of Minnesota's fiscal year 1998 financial statements. No findings or recommendations were included in that audit report. Similarly, no concerns were raised during our most recent audit of the MINNCOR financial statements for fiscal year 1999. We did not include the MINNCOR industries program as a part of our current audit scope.

Other Recent Audit Report 97-37, issued in July 1997, examined the operations of the Minnesota Correctional Industries Program and the dedicated receipts of the Special Revenue Fund. The report contained ten findings. We did not include these programs in our current audit scope; however, the department has submitted a progress report to the Department of Finance indicating the issues have been resolved.

State of Minnesota Audit Follow-up Process

The Department of Finance, on behalf of the Governor, maintains a quarterly process for following up on issues cited in financial audit reports issued by the Legislative Auditor. The process consists of an exchange of written correspondence that documents the status of audit findings. The follow-up process continues until Finance is satisfied that the issues have been resolved. It covers entities headed by gubernatorial appointees, including most state agencies, boards, commissions, and Minnesota state colleges and universities. It is not applied to audits of the University of Minnesota, any quasi-state organizations, such as the metropolitan agencies, or the State Agricultural Society, the state constitutional officers, or the judicial branch.

Department of Corrections

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State of Minnesota
Minnesota Department of Corrections

July 14, 2000

James Nobles, Legislative Auditor
Centennial Building
658 Cedar Street
Saint Paul, Minnesota 55155

Dear Mr. Nobles:

Thank you for the opportunity to respond to the recent draft audit report, *Department of Corrections: Three Fiscal Years Ended June 30, 1999*. We are strongly committed to the highest level of integrity in the fiscal management of this department.

The following information is the department's response to each of the findings and recommendations within the draft report.

Audit Finding #1

The risk of inappropriate transactions is increased by not promptly canceling computer system access for staff who have terminated or transferred employment.

Audit Recommendation #1

The Department of Corrections should immediately cancel computer access for the six former staff. The department should improve security access controls by promptly canceling access rights for staff who have terminated employment or transferred to other facilities or state agencies.

Department Response #1

We agree with the recommendation. MAPS access has been terminated for the individuals identified. The importance of timely termination of MAPS access will be emphasized with facility finance directors who will work closely with Human Resource Management for information regarding changes in employment conditions. Also, the department is exploring the feasibility of obtaining security data annually from the Department of Finance for review by central office and facility finance staff.

Person Responsible: Financial Services Director

Timeline: Access has been terminated for the individuals identified. Internal reviews will occur annually.

Audit Finding #2

Three facilities did not independently verify payroll transactions entered into SEMA4.

Audit Recommendation #2

Correctional facilities at Lino Lakes, Moose Lake/Willow River, and Stillwater should provide for an independent verification of payroll transactions processed in SEMA4.

Department Response #2

We agree with the recommendation. The correctional facility at Moose Lake/Willow River implemented this practice prior to the most recent audit. Subsequent to the audit, Stillwater and Lino Lakes have implemented the practice of independent payroll input verification.

Person Responsible: Financial Services Director

Timeline: All facilities now have this process in place.

Audit Finding #3

Minnesota Correctional Facility-Lino Lakes overpaid one employee \$9,873 due to an incorrect input of a special retroactive settlement transaction.

Audit Recommendation #3

MCF-Lino Lakes should seek reimbursement of the \$9,873 that was incorrectly paid to one of its employees pursuant to the Fair Labor Standards Act settlement agreement. The department should work with the Attorney General's Office to ensure recovery of funds. The department should develop procedures for improved review and scrutiny of the SEMA4 payroll register when special transactions, such as lump-sum settlement payments and retroactive adjustments, are processed.

Department Response #3

We agree with these recommendations. As stated in response #2, all facilities now have a process in place for independent payroll verification. This process includes additional scrutiny for special transactions. The department is vigorously pursuing collection action against the former MCF-Lino Lakes employee receiving the FLSA overpayment and has contacted the Office of the Attorney General to discuss the collection process.

Person Responsible: Policy and Legal Services Director

Timeline: Initiate next stage of the collection process within 60 days.

Audit Finding #4

The Department of Corrections did not document key decisions supporting its contract for medical services.

Audit Recommendation #4

The Department of Corrections should maintain complete documentation to support its contracting decisions. Records and analysis completed by consultants should be retained in department files and qualitative aspects supporting key decisions should be documented.

Department Response #4

We agree with this recommendation. The timing of the CMS contract amendment negotiations posed some unique challenges. The contract had been in force for five months, and the department was faced with ensuring continuity of care for the offender population while taking into consideration contract process issues. These aspects, while discussed, debated and analyzed, were not documented as formally as they could have

been. The department will implement a process by which all RFP bid and award materials are retained in a central location for material contracts. (Examples of material contracts include food and health services.) Additionally, the department will stress the importance of maintaining complete and thorough documentation about contract selection decisions and contract amendments in its annual training for contract monitors.

Person Responsible: Policy and Legal Services Director

Timeline: Complete by September 1, 2000

I will ensure follow-up on all of the findings and will monitor the progress of our action items until full resolution has occurred. This audit process has provided valuable information and feedback to department administrators and financial service unit staff. Please extend our sincere thanks to your staff for the professional, courteous and diligent manner in which they conducted their work.

Sincerely,

/s/ Terry Carlson

Terry Carlson
Assistant Commissioner
Management Services Division