



OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

Financial-Related Audit

Ombudsman for Corrections
Two Fiscal Years Ended June 30, 1999



Financial Audit Division

The Office of the Legislative Auditor (OLA) is a professional, nonpartisan office in the legislative branch of Minnesota State government. Its principal responsibility is to audit and evaluate the agencies and programs of state government (the State Auditor audits local governments).

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.

The division has a staff of approximately fifty auditors, most of whom are CPAs. The division conducts audits in accordance with standards established by the American Institute of Certified Public Accountants and the Comptroller General of the United States.

Consistent with OLA's mission, the Financial Audit Division works to:

- 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

Representative Dan McElroy, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. David E. Larson
Ombudsman for Corrections

We have audited selected areas of Ombudsman for Corrections for the period July 1, 1997, through June 30, 2000, as further explained in Chapter 1. Our audit scope included payroll, travel, and administrative expenditures. However, as explained in Chapter 3, our audit scope for administrative expenditures from July 1, 1997, through June 30, 1999, was limited due to a lack of documentation and poor audit trails. The audit objectives and conclusions are highlighted in the individual chapters of this report.

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 require that we design the audit to provide reasonable assurance that Ombudsman for Corrections complied with provisions of laws, regulations, and contracts that are significant to the audit. Management of the agency is responsible for establishing and maintaining the internal control structure and complying with applicable laws, regulations, and contracts.

This report is intended for the information of the Legislative Audit Commission and the management of Ombudsman for Corrections. This restriction is not intended to limit the distribution of this report, which was released as a public document on October 19, 2000.

/s/ James R. Nobles

James R. Nobles
Legislative Auditor

/s/ Claudia J. Gudvangen

Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

End of Fieldwork: August 18, 2000

Report Signed On: October 16, 2000

Ombudsman for Corrections

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Audit Participation

The following members of the Office of the Legislative Auditor prepared this report:

Claudia Gudvangen, CPA	Deputy Legislative Auditor
Brad White, CPA, CISA	Audit Manager
Crystal Eskridge	Auditor-in-Charge

Exit Conference

We discussed the results of this audit with the following representative of the Ombudsman for Corrections at an exit conference held on October 4, 2000:

David Larson	Ombudsman for Corrections
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Ombudsman for Corrections

Report Summary

The Ombudsman for Corrections is an independent agency created in 1972 to investigate complaints lodged by inmates, staff, and other interested parties. During the 1999 Legislative Session, the agency received state appropriation funding cuts and experienced the loss of several staff. The funding reductions and staff layoffs have affected the investigative and administration functions. Effective July 2000, financial and administrative functions were transferred to the Department of Finance. Currently, the agency employs the Ombudsman and two senior investigators.

Internal controls over payroll and travel costs were adequate until a change in administrative duties in July 2000. For items tested, the agency properly compensated its employees and reimbursed their travel expenses. However, we were unable to reach internal control and compliance conclusions on administrative expenditures due to a large number of missing vendor payment files.

Key Findings:

- The Ombudsman for Corrections no longer receives a key biweekly SEMA4 payroll control report and did not delete security access for staff who have left employment. (Finding 1, page 5)
- The agency could not locate documentation for several disbursements selected for audit examination. (Finding 2, page 8)
- The agency did not safeguard its equipment by updating the fixed asset records and performing a periodic physical inventory. (Finding 3, page 9)

Financial-Related Audit Reports address internal control weaknesses and noncompliance issues found during our audits of state departments and agencies. The scope of our audit work focused on payroll, travel, and administrative expenditure activities for the period from July 1, 1997, through June 30, 2000. The agency's response to our recommendations is included in the report.

Ombudsman for Corrections

Chapter 1. Introduction

The Ombudsman for Corrections is an independent agency created in 1972. It operates under the authority of Minn. Stat. Sections 241.41 through 241.45. The agency investigates complaints lodged by inmates, staff, and other interested parties. Complaints may be filed against the Department of Corrections, the Board of Pardons, and any regional or local correctional facility licensed or inspected by the commissioner of the Department of Corrections, whether public or private. The agency also has jurisdiction over county and metro area facilities. Patricia Saleen was the Ombudsman for Corrections until August 1999. Dave Larson was appointed in December 1999 and is the current Ombudsman for Corrections.

The Ombudsman for Corrections encountered reductions in state appropriation funding and has experienced the loss of several key staff. Its operating costs are funded solely from General Fund appropriations. The agency received annual appropriations of \$565,000, \$600,000, and \$470,000 for fiscal years 1998, 1999, and 2000, respectively. The fiscal year 2000 reduction resulted in the lay-off or resignation of four employees; decreasing the agency from ten to six staff. For fiscal year 2001, the Legislature further reduced its appropriation to \$310,000 requiring further layoffs of three of the remaining six employees. Currently, the agency employs the Ombudsman and two senior investigators

Agency funding reductions and staff layoffs have affected the investigative and administrative functions and have impacted the agency's internal controls. Two of the employees who were laid off were responsible for payroll, human resources, and accounts payable functions. The agency transferred certain financial and administrative functions to the Department of Finance effective July 1, 2000. Investigations of county facilities have been suspended, allowing remaining staff to focus on concerns at state and metropolitan facilities.

During fiscal year 2000, the Ombudsman for Corrections received additional funding from a small agency infrastructure appropriation administered by the Department of Administration's Office of Technology. The technology funding initiative provided a total of \$60,000 for computer equipment and upgrades.

Ombudsman for Corrections

General Fund appropriations and expenditures for fiscal years 1998, 1999, and 2000 are shown in Table 1-1.

Table 1-1
Ombudsman for Corrections
Sources and Uses of Funds
Fiscal Years 1998 through 2000

	<u>1998</u>	<u>1999</u>	<u>2000</u>
Revenues:			
State Appropriations ⁽¹⁾	\$565,000	\$592,990	\$470,000
Transfers-In ⁽²⁾	0	0	50,340
Balance Forward In	<u>0</u>	<u>1,503</u>	<u>0</u>
Available Resources	<u>\$565,000</u>	<u>\$594,493</u>	<u>\$520,340</u>
Expenditures:			
Payroll	\$496,495	\$502,775	\$370,040
Travel	15,232	18,588	13,338
Rent	23,728	24,774	21,388
Purchased Services	16,193	29,450	24,473
Supplies	8,337	9,572	5,968
Equipment	199	4,658	21,932
Other Expenditures	<u>2,748</u>	<u>4,097</u>	<u>5,466</u>
Total Expenditures	<u>\$562,932</u>	<u>\$593,914</u>	<u>\$462,605</u>
Transfers Out	565	579	0
Balance Forward Out	<u>1,503</u>	<u>0</u>	<u>57,735</u>
Total Uses	<u>\$565,000</u>	<u>\$594,493</u>	<u>\$520,340</u>

Note 1: State Appropriations are shown net of related cancellations in fiscal year 1999.

Note 2: The Ombudsman for Corrections received small agency infrastructure funding from the Department of Administration in fiscal year 2000. An additional \$9,660 was anticipated in fiscal year 2001.

Source: Minnesota Accounting and Procurement System (MAPS) for fiscal years 1998, 1999, and 2000 as of September 2000.

Chapter 2 discusses our review of internal controls and compliance for payroll and travel expenditures. Chapter 3 includes our review of other administrative expenditures.

Chapter 2. Payroll and Travel

Chapter Conclusions

The Ombudsman for Corrections' internal controls provided reasonable assurance that payroll and travel expenditures were properly authorized, based on work performed, and accurately recorded in the accounting records. During the audit period, mitigating controls sufficiently decreased the risk associated with incompatible access to human resource and payroll functions. However, since a recent change in administrative duties in July 2000, controls were weakened since key a key SEMA4 control report is no longer received and reviewed by the agency. In addition, the agency has not deleted security access for the employees who have terminated. For the items tested, the agency properly compensated employees and reimbursed them for travel costs in compliance with employee compensation plans, bargaining unit agreements, or statutory provisions.

Payroll represents the largest expenditure for the Ombudsman for Corrections. The agency spent \$1,369,310, or 85 percent of total expenditures, on employee payroll costs and \$47,158, or 3 percent of total expenditures, on travel costs over the audit period. Employees were covered by four compensation plans or bargaining units including the Managerial Plan, Commissioner's Plan, Minnesota Association of Professional Employees (MAPE), and American Federation of State, County and Municipal Employees (AFSCME).

The agency recorded payroll and travel transactions in the State Employees Management System (SEMA4). SEMA4 interfaced payroll and travel expenditures into the Minnesota Accounting and Procurement System (MAPS). Table 2-1 shows payroll and travel expenditures for the three fiscal years ended June 30, 2000.

Table 2-1
Ombudsman for Corrections
Payroll and Travel Expenditures
Fiscal Years 1998 through 2000

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>Total</u>
Payroll	\$496,495	\$502,775	\$370,040	\$1,369,310
Travel	<u>15,232</u>	<u>18,588</u>	<u>13,338</u>	<u>47,158</u>
Total	<u>\$511,727</u>	<u>\$521,363</u>	<u>\$383,378</u>	<u>\$1,416,468</u>

Source: Minnesota Accounting and Procurement System (MAPS) for fiscal years 1998, 1999, and 2000 as of September 2000.

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Audit Objectives and Methodology

Our audit of payroll and travel expenditures focused on the following objectives:

- Did the Ombudsman for Corrections' internal controls provide reasonable assurance that payroll and travel expenditures were properly authorized, based on work performed, and accurately recorded in the accounting system?
- Did the agency accurately compensate its employees and reimburse travel costs in accordance with the provisions of the applicable compensation plans and bargaining unit agreements?

To address these objectives, we interviewed agency personnel to gain an understanding of the internal control structure for processing payroll and travel transactions. We reviewed employee access to update SEMA4 human resource and payroll data. We analyzed employee compensation and tested hours worked, leave taken, payrate increases, and travel reimbursements to ensure compliance with the terms of the compensation plans or bargaining unit provisions. We noted legislative changes to statutory provisions governing compensation for the Ombudsman for Corrections and analyzed payroll transactions to determine whether the Ombudsman's salary was appropriately reduced as specified in law.

Conclusions

The Ombudsman for Corrections' internal controls provided reasonable assurance that payroll and travel expenditures were properly authorized, based on work performed, and accurately recorded in the accounting records. During the audit period, mitigating controls sufficiently decreased the risk associated with incompatible access to human resource and payroll functions. However, since a recent change in administrative duties in July 2000, controls were weakened since a key SEMA4 control report is no longer received and reviewed by the agency. In addition, the agency has not deleted payroll system access for the employees who have terminated. For the items tested, the agency properly compensated employees and reimbursed them for travel costs in compliance with employee compensation plans or bargaining unit requirements. We determined that the Ombudsman's salary complied with Minn. Stat. Section 15A.0815, Subd. 3 through June 30, 1999. Effective July 1, 1999, the Ombudsman's salary was appropriately reduced to the level set forth in 1999 Minnesota Laws, Chapter 221, Subd. 9.

1. The Ombudsman for Corrections did not review a key SEMA4 payroll processing report nor delete payroll system access for employees who have terminated.

The Ombudsman for Corrections lacked a critical review of a key SEMA4 payroll report. In addition, system access was not deactivated for staff who terminated employment with the agency. These weaknesses increase the risk that errors or irregularities could occur and go undetected by management.

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Since the transfer of administrative functions to the Department of Finance in July 2000, the Ombudsman for Corrections no longer receives and reviews one of two SEMA4 payroll processing reports. We found that the agency received and reviewed the Payroll Posting Audit Trail, but not the Payroll Register. A review of both reports is critical to ensure the integrity of the hours, payrates, and special transactions being processed. The Department of Finance SEMA4 Policy PAY0028 identifies two critical SEMA4 reports that must be produced and reviewed each pay period:

- The *Payroll Register* identifies employees payrates, timesheet hours worked, and leave taken. A review of this report will provide assurance about the hours and payrates and special lump-sum or retroactive adjustment transactions being processed for upcoming paychecks.
- The *Payroll Posting Audit Trail* identifies payroll expenditures, including gross pay plus employer contributions for FICA, retirement and insurance that were posted to the department accounts in the state's accounting system.

During fiscal years 1998 and 1999, agency employees had incompatible access to SEMA4 payroll and human resources functions. However, the agency developed mitigating detective controls through an independent review of the SEMA4 reports each pay period.

We also noted that SEMA4 system access privileges were not terminated for one employee who was laid off during fiscal year 1999. Another administrative employee with SEMA4 access was recently laid off at the end of fiscal year 2000. This employee's clearance should also be cancelled.

Recommendations

- *The Ombudsman for Corrections should work with the Department of Finance to obtain the biweekly SEMA4 payroll reports and review the integrity of the hours, payrates, and special transactions being processed.*
- *SEMA4 access privileges should be cancelled for employees who have terminated employment with the agency.*

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Chapter 3. Other Administrative Expenditures

Chapter Conclusions

We were unable to assess internal controls and compliance for other administrative expenditures due to a large percentage of missing files. The agency could not locate 9 of 16 vendor payment documents during our review. For the 7 items tested, expenditures complied with applicable procurement requirements. The Ombudsman for Corrections made lease payments according to the terms of its space lease agreements. We noted, however, that the agency did not sufficiently safeguard its equipment by updating and periodically verifying the fixed asset records.

Other administrative expenditures include rent, purchased services, supplies and materials, and equipment. These expenditures totaled approximately \$190,000, or 12 percent of the agency's operating costs during the audit period. The Ombudsman for Corrections uses the Minnesota Accounting and Procurement System (MAPS) to pay vendors and record administrative expenditures. As of July 2000, staff at the Department of Finance began entering administrative disbursements for the Ombudsman for Corrections. Table 3-1 shows total administrative expenditures by type for fiscal years 1998 through 2000.

Table 3-1
Ombudsman for Corrections
Administrative Expenditures by Type
Fiscal Years 1998, 1999, and 2000

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>Total</u>
Rent	\$23,728	\$24,774	\$21,388	\$ 69,890
Purchased Services	16,193	29,450	24,473	70,116
Supplies	8,337	9,572	5,968	23,877
Equipment	<u>199</u>	<u>4,658</u>	<u>21,932</u>	<u>26,789</u>
Total	<u>\$48,457</u>	<u>\$68,454</u>	<u>\$73,761</u>	<u>\$190,672</u>

Source: MAPS reports for fiscal years 1998, 1999, and 2000 as of September 2000.

Audit Objectives and Methodology

Our review of administrative expenditures addressed the following objectives:

- Did the agency's internal controls provide reasonable assurance that disbursements were authorized and accurately reported in the accounting records, and that assets were safeguarded?

Ombudsman for Corrections

- Did the agency comply with finance-related legal provisions concerning procurement of goods, equipment, and services?
- Did the agency make lease payments according to the terms of the lease agreements in effect?

To address these objectives, we interviewed agency personnel to gain an understanding of the internal control structure for administrative expenditures. We performed analytical tests on expenditure transactions throughout the audit period. We sampled administrative expenditures and tested the data for accuracy and compliance with applicable legal provisions, internal policies, and management's authorization.

Conclusions

We were unable to assess internal controls and compliance due to a large percentage of missing files. The agency could not locate 9 of 16 vendor payment documents during our review. For the seven items tested, expenditures complied with procurement requirements. The Ombudsman for Corrections made lease payments according to the terms of its space lease agreements. We noted, however, that the agency did not sufficiently safeguard its equipment by updating and periodically verifying the fixed asset records.

2. The Ombudsman for Corrections could not locate documentation supporting several payments to vendors.

The agency was unable to locate vendor invoices, purchase orders, contracts, and receiving evidence supporting 9 of 16 vendor payments selected for examination. We found that the agency did not keep efficient or effective files of payment documentation supporting its administrative expenditures, increasing the risk of errors and irregularities occurring without detection. Efforts to correct errors or irregularities will be impeded by the inability to immediately access essential documentation. Without the supporting payment documentation, we could not reach conclusions regarding internal controls or compliance. For the seven items tested, the agency was able to locate the necessary payment and procurement documents.

Minn. Stat. Section 15.17 requires public officers to “make and preserve all records necessary for full and accurate knowledge of their official activities.” Subdivision 2 indicates “It shall be the duty of each agency, and its chief administrative officer, to carefully preserve and protect governmental records from deterioration, mutilation, loss, or destruction.” All of the unlocated payment documents occurred prior to July 1, 1999.

Recommendation

- *The management of the Ombudsman for Corrections should ensure procurement and payment documentation is appropriately filed and retained to support the expenditure of public funds.*

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3. The agency did not safeguard and control its fixed assets.

The Ombudsman for Corrections did not affix asset identification numbers, maintain accurate fixed asset records, nor complete a periodic physical inventory. We found that new equipment purchases were not updated on the fixed asset system, and purchased items were not identified and tagged with an asset identification number. The agency had not completed a physical inventory of its equipment for several years. Physical inventory counts and complete fixed asset records are essential to safeguard and control agency assets. Theft or misuse of equipment could go undetected without a periodic verification and comparison to fixed assets inventory records.

In fiscal year 2000, the Ombudsman for Corrections received an additional \$50,000 from the Small Agency Technology Initiative for new computer equipment and upgrades. Approximately \$22,000 was provided for computer hardware; however, none of the new computer equipment has been tagged or logged in the fixed asset database.

Recommendations

- *The Ombudsman for Corrections should complete a physical inventory and ensure the proper recording of all equipment on its fixed asset database.*
- *The agency should immediately assign fixed asset identification numbers and affix tags on new equipment purchases.*

Ombudsman for Corrections

Status of Prior Audit Issues As of August 18, 2000

Most Recent Audit

Legislative Audit Report 98-49, issued in September 1998, covered material activities of the agency for the period of July 1, 1995, through June 30, 1997. The audit scope included a review of payroll, purchased services, and rent expenditures. The report contained one payroll finding and related recommendation. The finding was resolved by developing mitigating controls, which are discussed in the payroll chapter of this report.

State of Minnesota Audit Follow-up Process
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<p>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.</p>



State of Minnesota
OMBUDSMAN FOR CORRECTIONS

October 16, 2000

Mr. James R. Nobles, Legislative Auditor
Office of the Legislative Auditor
1st Floor South, Centennial Building
658 Cedar Street
St. Paul, MN 55155

Dear Mr. Nobles:

Thank you for your recent audit of the Office of the Ombudsman for Corrections. We appreciated your staff's patience as we gathered the available documents necessary for the review.

I have had a chance to review the audit report issued to me earlier this month. In response to your recommendations on the three points raised, the office has taken the following measures:

Finding #1

- I have discussed the issue of not receiving the Payroll Register Report with The Department of Finance and was informed that they will remedy my non-receipt of the missing report. Since the office does not have a mainframe accessible printer on premise, this report will be delivered by inter-office mail on or about the Tuesday following the end of a pay period.
- I called SEMA4 security and confirmed that SEMA4 access privileges for the two affected employees were processed on March 9, 2000 and July 10, 2000 respectively. In the future, any needs for SEMA4 activation and deactivation will be handled and quality reviewed directly through consultation with The Department of Finance, Information Services Division.

Finding #2

- Despite attempts to locate archived purchasing documents from prior to July 1999 by the Business Manager, the office was unable to locate them for review during the audit. Consequentially, a July 2000 budget reduction resulted in a reduction of force and the Business Manager responsible for purchasing transactions as well as records retention is no longer with the agency. Currently the office is utilizing the Department of Finance (DOF), Small Agency Assistance Division for purchasing activity and transactions. Until such time as additional clerical or administrative resources become

available, the procedure followed using DOF Small Agency Assistance Division as a resource is for the agency head to review billings and approve valid obligations for payment. Bills are then sent to the DOF Small Agency Assistance Division for transaction processing. When completed, the transacted document is returned with relevant transmittal and accounts information written on the document that is compared to regularly received expense account printouts for accuracy. Finally, the original bill documents, processing information and any supporting documentation is filed on a fiscal year basis, by alphabetical vendor listing.

Finding #3

- Due to a budget reduction effective July 1999 the clerical position directly responsible for the periodic inventory and updating the fixed asset database has not been able to be reassigned to remaining staff. However, recognizing the importance of this activity to the safeguarding of state assets, I have tasked remaining employees as follows: Employees are expected to complete a written physical inventory of their work areas as well as all other areas of the office without an identifiable written inventory record completed within the last year. The projected completion date of this exercise is November 1, 2000. In addition, a picture record of the newly acquired as well as surplus equipment including computers, monitors, printers and fax/copying machine was completed on October 10th and is intended to be maintained with the written record. The written inventory sheets will be delivered to a separate state agency for database entry into a fixed asset database system. The print copy of the pictures will be stored with these written reports and reviewed at least annually as well as whenever a significant change in equipment is experienced. The projected timeline for completion of all these activities is November 24, 2000.
- By October 25, 2000 numbered fixed asset identification tags will be assigned and affixed to the recent computer equipment purchases. This information will be included in the written reports sent for data entry into a fixed asset database system.

This concludes the office's response to the audit findings for the fiscal years ending June 2000. I hope you will find the actions taken so far and proposed to be satisfactory to alleviate concerns raised by your staff in the audit.

Once again, thank you for your timely completion of the audit.

Sincerely,

/s/ David E. Larson

David E. Larson
Ombudsman for Corrections