

Financial-Related Audit

Department of Corrections
July 1, 1999, through June 30, 2002



Financial Audit Division

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OFFICE OF THE LEGISLATIVE AUDITOR
State of Minnesota • James Nobles, Legislative Auditor

Representative Tim Wilkin, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Ms. Joan Fabian, Commissioner
Minnesota Department of Corrections

We have audited the Department of Corrections for the period July 1, 1999, through June 30, 2002. Our audit scope included employee payroll, contracts for health and food service, cell phone and special expense expenditures, and correctional industries' accounts receivable. The audit objectives and conclusions are highlighted in the individual chapters of this report.

We conducted our audit in accordance with *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 the Department of Corrections complied with provisions of laws, regulations, contracts, and grants that are significant to the audit. The management of the department is responsible for establishing and maintaining the internal control structure and complying with applicable laws, regulations, contracts, and grants.

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 released as a public document on October 29, 2003.

/s/ James R. Nobles

James R. Nobles
Legislative Auditor

/s/ Claudia J. Gudvangen

Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

End of Fieldwork: June 26, 2003

Report Signed On: October 22, 2003

Department of 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
Cecile Ferkul, CPA, CISA	Audit Manager
Ken Vandermeer, CPA	Audit Director
April Snyder	Auditor
John Hakes	Auditor
Kristen Poore	Auditor

Exit Conference

We discussed the results of the audit with the following staff of the Department of Corrections at an exit conference on October 9, 2003:

Joan Fabian	Commissioner
Dennis Benson	Deputy Commissioner
Harley Nelson	Deputy Commissioner
Chris Bray	Assistant Commissioner
Lisa Cornelius	Chief Financial Officer
John Calabrese	Assistant Finance Director
Paul Anderson	Budget Manager

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Report Summary

This selected scope audit of the Department of Corrections focused on employee payroll, health and food service contracts, cell phone use and reimbursement, special expenses, and correctional industries' accounts receivable. We selected our scope based on materiality and an assessment of those transaction types more susceptible to error.

Key Findings:

- The Department of Corrections did not enforce contractual requirements for retainage and billing documentation. (Finding 1, page 13)
- The department did not adequately control cell phone costs. (Finding 2, page 19)
- The department did not ensure it complied with special expense requirements. (Finding 3, page 21)

Agency Background:

The Minnesota Department of Corrections is a service and regulatory agency. It has a broad range of activities and responsibilities, including the operation of ten correctional facilities for adults and juveniles. The department has organized its operations into three divisions: adult facilities, community and juvenile services, and management services. The department also has units for investigations, correctional industries, and medical services. Additionally, volunteer citizen advisory groups assist the department in the areas of community corrections, women offender programs, and correctional industries. The department has over 3,900 employees.

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Department of Corrections

Chapter 1. Introduction

The Minnesota Department of Corrections is a service and regulatory agency. It has a broad range of activities and responsibilities, including the operation of ten correctional facilities for adults and juveniles. The department has organized its operations into three divisions: adult facilities, community and juvenile services, and management services. The department also has units for investigations, correctional industries, and medical services. Additionally, volunteer citizen advisory groups assist the department in the areas of community corrections, women offender programs, and correctional industries. The department has over 3,900 employees.

The eight adult facilities serve more than 6,800 inmates. Inmates in state facilities have access to a variety of work, education, and other program activities. The correctional industries program, MINNCOR, provides inmates with work skills they can use in productive employment after release. Educational programs focus on basic literacy instruction. The department also provides specialized programs for sex offenders and chemically dependent inmates.

The department's community juvenile services unit administers juvenile grants, and provides technical assistance and training to state and local juvenile corrections staff. It works closely with other state juvenile facility licensing agencies to develop appropriate operational and program licensing rules for children in out-of-home placement. The state's two juvenile facilities serve approximately 230 juvenile offenders. The juvenile programs provide educational and vocational training.

The department also monitors about 20,000 adult and juvenile offenders on probation, supervised release, or parole.

Table 1-1 shows the custody level, average daily population, and full-time equivalent staff for each state facility.

Department of Corrections

Table 1-1
Department of Corrections
Facility Information
Fiscal Year 2002

<u>Adult Facilities</u>	<u>Custody Level (Note 1)</u>	<u>Average Daily Population</u>	<u>Staff</u>
Faribault	Medium	1,125	334
Lino Lakes	Medium/Minimum	1,168	418
Oak Park Heights	Maximum	363	243
St. Cloud	Close Confinement	808	351
Shakopee (female)	Various	357	164
Stillwater	Close Confinement	1,289	413
Moose Lake/Willow River (Note 2)	Medium/Minimum	1,016	314
Rush City	Close Confinement	423	202

<u>Juvenile Facilities</u>			
Red Wing	Various	165	183
Thistledew Camp	Various	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: The Willow River facility operates the Challenge Incarceration Program and is administered with Moose Lake.

Source: Minnesota Department of Corrections' website and 2000-2001 Biennial Budget Report.

Governor Pawlenty appointed Joan Fabian as the commissioner of the department in January 2003. Prior to Ms. Fabian's appointment, Sheryl Ramstad Hvass served as commissioner from June 1999 through January 2003.

Table 1-2 summarizes the department's General Fund appropriations and its use of those funds for fiscal years 2000 through 2002.

Department of Corrections

Table 1-2
Sources and Uses of Funds
General Fund Only
Fiscal Years 2000 through 2002

	2000	2001	2002
Appropriations	\$327,389,330	\$350,905,000	\$362,228,468
Receipts	145,256	1,064,681	76,319
Transfers In (net of internal transfers)	210,000	210,000	282,000
Balance Forward In	<u>2,300,843</u>	<u>18,540,924</u>	<u>784,153</u>
Total Sources	<u><u>\$330,045,429</u></u>	<u><u>\$370,720,605</u></u>	<u><u>\$363,370,940</u></u>
Payroll	\$180,140,668	\$193,885,595	\$198,053,267
Aid to Counties	62,908,237	70,994,671	72,529,498
Professional/Technical Services	17,911,961	23,193,188	21,316,808
Supplies	17,124,122	23,689,018	17,091,097
Rent, Maintenance, and Utilities	7,389,795	9,460,354	7,320,917
Equipment	4,219,331	11,660,164	3,955,792
Other Expenditures	<u>21,795,286</u>	<u>27,675,276</u>	<u>21,066,355</u>
Total Expenditures	<u><u>\$311,489,400</u></u>	<u><u>\$360,558,266</u></u>	<u><u>\$341,333,734</u></u>
Balance Forward Out	18,540,924	784,153	16,836,658
Reverted Appropriations	0	1,942,000	5,200,000
Appropriation Cancellations	<u>15,105</u>	<u>7,436,186</u>	<u>548</u>
Total Uses	<u><u>\$330,045,429</u></u>	<u><u>\$370,720,605</u></u>	<u><u>\$360,370,940</u></u>

Source: Minnesota Accounting and Procurement System.

In addition to its General Fund resources, the department had financial activity in special revenue, federal, miscellaneous agency, social welfare, gift, and correctional industries funds. Table 1-3 summarizes the revenue expenditures for these funds for fiscal year 2002.

Table 1-3
All Non-General Funds
Summary of Revenue and Expenditures
Fiscal Year 2002

<u>Fund</u>	<u>Revenue</u>	<u>Expenditures</u>
Miscellaneous Special Revenue	\$17,064,875	\$16,154,814
Federal	15,681,196	14,535,467
Miscellaneous Agency	11,491,137	10,483,877
Social Welfare	15,036,257	14,968,597
Gift	12,224	71,738
Correctional Industries	23,493,476	24,191,611

Source: Minnesota Accounting and Procurement System.

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Audit Scope and Objectives

Our audit was not a full scope audit of the Department of Corrections. We selected our scope based on materiality and an assessment of those transaction types more susceptible to error. Our audit scope in the department included employee payroll, health and food service contracts, cell phone use and reimbursement, special expenses, and correctional industries' accounts receivable.

To address our objectives, we interviewed key agency employees, reviewed applicable policies and procedures, tested samples of financial transactions, and performed analytical procedures, as appropriate. We discuss our specific audit work more fully in the following chapters.

Chapter 2. Employee Payroll

Chapter Conclusions

The Department of Corrections' internal controls provided reasonable assurance that it adequately documented, approved, paid, and recorded supplemental types of employee compensation and complied with bargaining agreements and compensation plans.

Employee payroll was the largest administrative expenditure for the Department of Corrections, comprising about 56 percent of its General Fund expenditures. About 85 percent of the department's 3,900 employees worked at the correctional facilities. Employees belonged to the following bargaining units:

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

The bargaining unit agreements and compensation plans specified employee compensation and benefits and allowed for some unique payroll transactions for correctional employees. For example, since correctional facilities operate 24 hours a day, 365 days a year, correctional officers and guards in the American Federation of State, County, and Municipal Employees bargaining unit received additional compensation for shift differential, overtime, premium, and holiday compensation. Only about three percent of the department's payroll cost was for overtime and premium pay.

The department funded the majority of its payroll costs through the General Fund, but it compensated some employees with other funds. Table 2-1 summarizes the department's payroll costs by funding source for fiscal years 2000 through 2002.

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Table 2-1
Summary of Payroll Costs by Fund
Fiscal Years 2000 through 2002

Fund	2000	2001	2002
General	\$180,140,668	\$193,885,595	\$198,053,267
Miscellaneous Special Revenue	5,723,309	6,984,961	8,490,178
Federal	925,985	1,168,721	1,262,367
Miscellaneous Agency	1,082,602	1,113,936	1,151,479
Social Welfare	4,646	4,709	5,155
Gift	0	2,963	63,428
Correctional Industries	4,660,923	5,304,853	6,545,921
Total Payroll	\$192,538,133	\$208,465,738	\$215,571,795

Source: Minnesota Accounting and Procurement System.

Table 2-2 summarizes payroll costs by facility for the three fiscal years ending June 30, 2002.

Table 2-2
Department of Corrections
Summary of Payroll Expenditures
Fiscal Years 2000 through 2002

Facility	2000	2001	2002
Central Office (Note 1)	\$ 48,152,406	\$ 54,054,943	\$ 65,644,133
Lino Lakes	23,057,893	23,798,966	23,453,890
Stillwater	23,200,886	24,404,276	23,307,833
St. Cloud	21,040,456	21,479,751	20,488,482
Faribault	18,477,331	19,186,183	18,453,551
Moose Lake/Willow River	17,296,797	18,286,851	17,378,842
Oak Park Heights	14,000,507	14,628,393	13,758,388
Rush City (Note 2)	5,752,579	10,312,916	10,672,970
Red Wing	9,091,817	9,894,905	10,449,487
Shakopee	9,213,677	9,473,692	8,865,086
Thistle Dew Camp	2,671,160	2,753,384	2,998,831
Sauk Center (Note 3)	582,624	191,477	100,302
Total	\$192,538,133	\$208,465,737	\$215,571,795

Note 1: Central Office payroll expenditures increased largely due to the centralization of information technology positions and health care services.

Note 2: The department opened the Rush City facility in January 2000.

Note 3: The department closed the Sauk Center facility during fiscal year 1999, but as part of a settlement agreement, continues to pay health insurance premiums for retired employees.

Source: Minnesota Accounting and Procurement System.

Audit Objectives and Methodology

Our audit of employee payroll focused on the following questions:

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- Did the Department of Corrections establish controls to provide reasonable assurance that it accurately documented, approved, and recorded supplemental types of employee compensation on the state's personnel/payroll system and that it complied with material legal provisions and the various bargaining agreements and compensation plans?
- Did the Department of Corrections comply with material finance-related legal provisions for supplemental types of employee compensation transactions, including bargaining agreements and compensation plans?

To address these objectives, we made inquiries of the department's staff to gain an understanding of controls over payroll and personnel processing. We tested certain payroll transactions to determine if controls functioned properly for documentation and authorization of supplemental types of employee compensation. We reviewed supplemental types of employee compensation, such as overtime, shift differential, shift exchange, and severance payments at each of the institutions.

Conclusions

The Department of Corrections' internal controls provided reasonable assurance that it adequately documented, approved, paid, and recorded supplemental types of employee compensation and complied with bargaining agreements and compensation plans. For the items tested, the department complied with applicable finance-related legal provisions, including bargaining agreements and compensation plans.

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Chapter 3. Health Care and Food Service Contracts

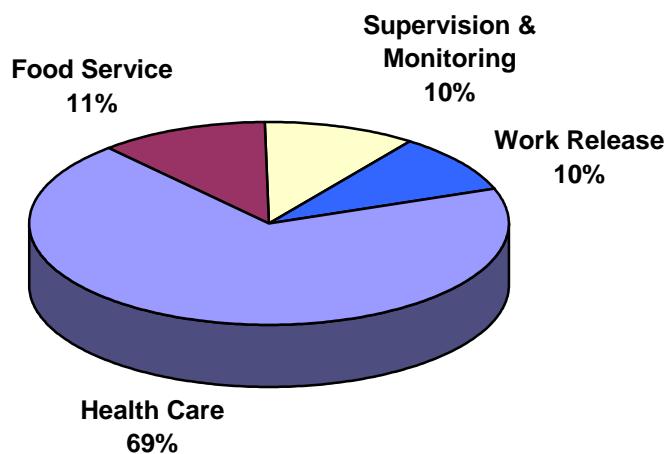
Chapter Conclusions

The department established controls to provide reasonable assurance that it complied with material legal and contract provisions and accurately reported health care and food service contracts in the accounting records. However, the department did not enforce contract retainage terms. Additionally, proper billing documentation was not requested from food service contract vendors at certain facilities. For the items tested, the department complied with other material legal compliance and contract provisions.

Contract Services

The department contracted with outside vendors and other state agencies to provide goods and services for central office and facility operations. The department established the largest of these contracts to provide inmates with health care and food service. Figure 3-1 summarizes the department's contract expenditures for its major professional, technical, and other purchased services for fiscal year 2002.

Figure 3-1
Department of Corrections
Contract Expenditures by Type
Fiscal Year 2002



Source: Minnesota Accounting and Procurement System.

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Health Care Services

Since fiscal year 1999, the department has had a negotiated managed care contract to provide health care services to all inmates. The department monitored the contract and made the premium payments to the medical provider. The department was also responsible for all inmate health care decisions, all health care budget decisions, and human resources decisions for health care staff at the correctional facilities. The department believes a central managed care contract provides consistent care across all facilities and the opportunity for cost containment strategies. In fiscal year 2002, Health Care Services expenditures totaled nearly \$13.5 million.

Food Service

In fiscal year 2000, the department negotiated a centrally managed contract to provide food service to inmates at its facilities in Faribault, Lino Lakes, Shakopee, Willow River, Moose Lake, Stillwater, Oak Park Heights, and Rush City. (Red Wing and St. Cloud have state operated food service operations.) The food service contract only includes monthly labor costs and management fees. The vendor does not receive a percentage of receipts, when meal tickets are sold to staff members or visitors. The vendor does not purchase food but does assist facility staff in preparing food supply orders. In fiscal year 2002, food service expenditures totaled about \$2.2 million.

Audit Objectives and Methodology

Our audit of contract services focused on the following questions:

- Did the Department of Corrections establish controls to provide reasonable assurance that it complied with material legal and contract provisions and accurately reported health care and food service contracts in the accounting records?
- Did the Department of Corrections comply with material legal and contract provisions in administering health care and food service contracts?

To address our objectives, we interviewed key department employees to gain an understanding of applicable policies and procedures and performed analytical procedures, as appropriate. We examined the master contract for both health care and food service negotiated by the central office for the various facilities. We verified a sample of monthly health care and food service contract payments. Our review traced payments to the supporting documentation and the criteria established in the contracts.

Conclusions

The department established controls to provide reasonable assurance that it complied with material legal and contract provisions and accurately reported health care and food service contracts in the accounting records. However, the department did not enforce contract retainage terms. In addition, six facilities did not request and review proper supporting documentation

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from the food service contract vendor. For items tested, the department complied with other material legal compliance and contract provisions.

1. The Department of Corrections did not enforce contractual requirements for retainage and billing documentation.

The department did not retain a portion of each payment (or of the final payment) to health care and food service vendors as required by contract terms. In addition, the department made payments without requesting the proper supporting documentation for each vendor invoice or billing statement.

The department's contracts for health care and food service included clauses, required by statute, that the department would only pay 90 percent of the contract amount pending final satisfaction of all contract terms. The department, however, paid each invoice in full and did not retain any portion of contract payment to use as leverage should a contract dispute arise.

In addition, six of the eight facilities did not require the vendor to submit documentation to support the monthly billings for labor and management fees. The food service contract negotiated by the central office required the vendor to provide supporting documentation for each contract payment. Facilities should have compared the billing documentation to the contract terms and resolve any billing errors before making final payment. Without detailed billing documentation, the facility could not determine if the charges assessed complied with contract provisions.

Recommendation

- *The Department of Corrections should ensure facilities comply with contract requirements for retainage and billing documentation.*

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Chapter 4. Cell Phones and Special Expenses

Chapter Conclusions

The Department of Corrections did not adequately control its cell phone costs. Personal use of cell phones at the department seemed excessive. The department did not consistently conduct reviews of cell phone activity to monitor employee cell phone use and to assess the appropriateness of the assigned calling plan. Because of these weaknesses, the department incurred unnecessary costs and obtained inaccurate reimbursements from employees.

The department also did not always comply with special expense policy requirements. It did not monitor special expense transactions to ensure that it limited transactions to approved amounts and complied with policy guidelines. As a result, some special expenses may not have been allowable and may not have served a business and/or public purpose.

Cell phones and special expenses are two expenditure areas for which the state has developed specific policies and procedures. The Department of Finance designed specific policies and procedures for these areas to ensure the proper use of state funds. An employee's business need for a cell phone may be difficult to assess, and the business nature of the cell phone charges may not be determinable. Similarly, special expenses are expenses that would not normally be allowable. Approved special expenses should be those that serve a business purpose.

In February 2003, local news media requested the supporting documentation for the former commissioner's cell phone expenditures for the period from October 1, 2001, through September 30, 2002. Similarly, the state's special expenses expenditures had been criticized by the media as not always providing sufficient public benefit. Because of these concerns raised by the media, we included a broader review of cell phones and special expenses in our audit scope.

Cell Phones and Other Communication Tools

Timely communication is vital to the Department of Corrections. Because of the round the clock nature of its operations and the types of public safety situations that can arise, it is reasonable that Department of Corrections' staff would have a significant number of cell phones and other types of communication tools. In a February 2003 memo to the Department of Finance, the Department of Corrections stated that its employees had 478 cell phones, 906 pagers, and 1,601 other types of mobile telecommunication devices. The department reported that the costs of these communication tools totaled \$466,927 in fiscal year 2002. Table 4-1 summarizes the communication tools as of February 2003 and the cost of those tools for fiscal year 2002, by facility.

Department of Corrections

Table 4-1
Summary of Communication Tools, by Facility
As of February 2003

Facility	Cell Phones	Pagers	Mobile Telecommunication Devices	Fiscal Year 2002 Cost
Central Services (Note 1)	88	68	2	\$ 134,616
Field Services (Note 2)	167	21	25	119,591
Moose Lake/Willow River	25	54	227	35,907
Lino Lakes	40	155	178	32,856
Correctional Industries	35	21	0	26,920
Red Wing	18	54	60	21,800
Faribault	16	94	320	19,599
Rush City	16	103	8	16,840
Stillwater	21	184	295	15,691
Saint Cloud	15	48	237	13,884
Thistledew Camp	10	8	66	13,565
Oak Park Heights	19	71	114	10,104
Shakopee	<u>8</u>	<u>25</u>	<u>69</u>	<u>5,554</u>
Totals	<u>478</u>	<u>906</u>	<u>1,601</u>	<u>\$466,927</u>

Note 1: Central Services include the commissioner's office and all units or divisions in the central office, except for field services.

Note 2: Field Services provide administration of the statewide intensive supervision program, work release, community work crews, and other supervision programs.

Source: Department of Corrections February 2003 memo to the Department of Finance and supporting schedules.

Our audit focused on the department's cell phone usage. Cell phones comprised the majority of the costs related to the various communication tools. Unlike pagers and mobile telecommunication devices, the number of cell phone calls and the miscellaneous charges applicable to those calls determines much of the communication cost of a cell phone. Thus, the way the employee uses the cell phone determines what the expenditure will be. As shown in Table 4-2, payments to cell phone service providers increased approximately 70 percent from fiscal year 2000 to fiscal year 2002. In fiscal year 2003, payments for cell phone services decreased 14 percent, most likely due to reductions imposed by the state's budget deficit.

Table 4-2
Summary of Payments to The Top Six Cell Phone Service Providers
Fiscal Years 2000 through 2003

Vendor	2000	2001	2002	2003
AT & T Wireless	\$107,340	\$128,872	\$122,244	\$ 74,030
Midwest Wireless	42,554	30,111	38,808	42,379
Cellular 2000	3,785	46,072	47,010	39,831
Verizon Wireless	3,145	31,299	40,907	37,036
Nextel	852	9,598	29,859	48,307
Rural Cellular	<u>14,352</u>	<u>17,503</u>	<u>16,278</u>	<u>11,121</u>
Totals	<u>\$172,028</u>	<u>\$263,455</u>	<u>\$295,106</u>	<u>\$252,704</u>

Source: Minnesota Accounting and Procurement System.

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Minnesota statutes required the commissioners of the departments of Administration and Employee Relations to issue a statewide policy on the use of electronic mail and other forms of electronic communications, including cell phones, by executive branch state employees. The Legislature has revised the statute at various times, most recently in 1997, to require the state to permit state employees to make reasonable use of state time, property, and equipment for personal communications.

Since 1995, the state has had a policy to ensure an appropriate process for acquiring cell phones for business use and to process accurate payments to vendors for cell phone purchases and services, and to process appropriate reimbursements to employees for state business use of a personal cell phone. While the policy has evolved as the requirements of the statutes have changed and as the use of cell phones by state agencies has expanded, the basic elements have remained constant. For example, the state policy has always stated that cell phones provided to employees are for state use only, and that agencies should select calling plans that are cost effective and based on the employee's business needs.

Table 4-3 summarizes key elements of the state's cell phone policy. As encouraged by the state policy, the Department of Corrections created its own policies and procedures to address its own unique needs. Much of the department's policy incorporates or mirrors the state's policy. The department added specific provisions about the approvals needed to obtain a cell phone and to process the payments and the method to determine the amount an employee would need to reimburse the department for personal use.

Table 4-3
Summary of the State of Minnesota's Cell Phone Policy
As of April 2002

- The decision to purchase a cell phone and a calling plan is a department decision based on business needs.
- Cell phones are intended for state use. Purchase of the cell phone and the calling plan should be based on business needs. Limited and reasonable use of a cell phone for occasional employee personal use that does not result in any additional costs to the state for loss of time or resources may be permitted.
- Departments should purchase cell phones through state contracts.
- Employees must review and verify cell phone usage on the billing documents.
- Managers and supervisors are responsible for monitoring and reviewing cell phone billings of their staff on a monthly basis to ensure proper usage and cost-effectiveness and for approving billing for payment processing.
- Any cost incurred for cellular phone use, whether for public or personal use, is a liability of the state. The department should pay the full invoice amount due the vendor.
- Agencies must require reimbursement for personal cell phone use that results in additional cost to the state.
- Employees can be reimbursed for business use of a personal cell phone by submitting an employee business expense form.
- Agencies must annually review current cell phone users and determine if the need still exists for employee usage, and if the existing calling plan still meets the users' needs.
- Additional department level guidance must be referred to as an agency specific addendum to the statewide policy.

Source: Department of Finance Operating Policy and Procedure 0807-04, as revised April 18, 2002.

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Monitoring cell phone use and ensuring that the state pays only for costs related to its business needs can be challenging. While an employee's personal use of "free minutes" may not directly increase the cost, it could indicate that the state is paying for a plan that provides more than the employee needs for a business purpose. Also, determining the business verses personal minutes and calculating the amount that the employee may owe the state for personal use can be an administrative burden. Often, the department has limited ability to determine the nature of a call, especially incoming calls, and must rely on the employee's memory, honesty, and integrity to identify the personal charges on the invoice. This is especially true for an incoming call since the source of the call is usually not identified on the bill. Obtaining, depositing, and recording reimbursement checks from employees for personal use of state cell phones creates additional duties for a department. Finally, the state's accounting system does not have coding to allow for easy analysis of cell phone related costs or employee reimbursements for personal use, which led the department to create and maintain subsidiary spreadsheets. The most effective way for the state to control these administrative costs is to minimize employees' personal use of state owned cell phones.

Special Expenses

Special expenses are expenses incurred in connection with the official functions of the department, or the assigned duties of a state employee, that are not reimbursable through the regular expense regulations. For example, a department cannot normally provide meals or refreshments for meetings mainly consisting of state employees. However, a department may be able to support the need for meals at a training event where the provision of a meal or refreshments maintains the flow of the event. The Department of Employee Relations requires each state agency to annually submit a special expense plan for approval, detailing the events and circumstances for which the department expects to incur special expenses. Once approved, the department is responsible to administer the plan according to the guidelines established in the Department of Employee Relations' Administrative Procedure 4.4.

Audit Objectives and Methodology

Our audit of cell phone and special expense transactions focused on the following questions:

- Did the Department of Corrections establish controls providing reasonable assurance it complied with material legal provisions and state policies and procedures and accurately reported cell phone expenditures and special expense activities in the accounting records?
- Did the Department of Corrections comply with material legal provisions and state policies and procedures in administering cell phone and special expense activities?

To address our objectives, we interviewed key department employees to gain an understanding of applicable policies and procedures. We reviewed the controls over cell phone and special expense transactions and tested a sample of transactions for compliance with existing policies. We also summarized cell phone activity for the former commissioner and tested the reimbursement for personal phone calls.

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Conclusions

The Department of Corrections did not adequately control its cell phone costs. Personal use of cell phones at the department seemed excessive. The department did not consistently conduct reviews of cell phone activity to monitor employee cell phone use and to assess the appropriateness of the assigned calling plan. Because of these weaknesses, the department incurred unnecessary costs and obtained inaccurate reimbursements from employees.

The department also did not always comply with special expense policy requirements. It did not monitor special expense transactions to ensure that it limited transactions to approved amounts and complied with policy guidelines. As a result, some special expenses may not have been allowable and may not have served a business and/or public purpose.

2. The Department of Corrections did not adequately control cell phone costs.

The Department of Corrections did not adequately control its cell phone costs. Personal use of cell phones at the department was excessive, resulting in the need for employee reimbursement. The department did not conduct reviews of cell phone activity to monitor employee cell phone use and to assess the appropriateness of the assigned calling plan. Because of these weaknesses, the department incurred unnecessary costs and obtained inaccurate reimbursements from employees.

Table 4-4 summarizes the various types of policy violations identified during our review of 33 monthly cell phone invoices. The dollar values of individual errors or miscalculations were immaterial. However, considering the pervasiveness of the errors and number of cell phones the department has, the errors indicate a much larger problem for the department as a whole.

Table 4-4
Department of Corrections
Deviations from Policy

	Central Office	Red Wing	Faribault
➤ Number of invoices tested:	12	12	9
Policy Deviations:			
Incorrect rates used to calculate employee reimbursement for personal use.	6	4	0
Long distance charges related to personal use not included in employee reimbursement amount.	0	3	0
Roaming charges related to personal use not included in employee reimbursement amount.	1	2	0
Supervisory review of invoice not performed or not documented.	4	4	7
Personal phone calls not consistently identified.	5	2	0

Source: Review of monthly invoices for selected cellular phone accounts during fiscal years 2001 and 2002.

Many of the invoices examined suggested that the employees regularly used their cell phones for personal calls. Personal use of state owned cell phones requires significant administrative oversight to ensure that the state does not inadvertently pay for any additional costs. The department must rely on the employee's identification of personal calls. Complicated calling

Department of Corrections

plans and additional charges, such as roaming charges and long distance charges, make it difficult to determine the true cost of personal calls and the amount that the employee needed to reimburse. Changes in the department's reimbursement rates resulted in inconsistent reimbursement practices, with some employees reimbursing at one rate, others at another rate, and others repaying the actual charges. At times, facilities paid cell phone invoices without evidence of supervisory review. The supervisor is in the best position to determine whether the employee scrutinized the invoice for personal use, properly calculated the reimbursement, and submitted reimbursement. The supervisor also should monitor the employee's business need for the cell phone and whether the calling plan supports that business need. At one facility, the accounting unit did not verify that employees actually submitted reimbursement for identified personal calls.

The former commissioner's cell phone usage provides an example of the risks associated with personal use of a state cell phone. Following a request from the media, the department reviewed the former commissioner's cell phone invoices for the period from October 1, 2001, through September 30, 2002. The cell phone invoices for that period totaled about \$12,000, of which the former commissioner had initially identified about \$3,500 as personal calls. The department's review found inconsistent applications of its reimbursement policy which overall netted to an additional amount owed to the state. Before releasing the invoices to the media, the former commissioner again reviewed the invoices and identified additional personal calls. She repaid the state \$2,186 to resolve the rate and personal call adjustments for this one-year period. We examined a few invoices before and after the period examined by the department and found similar rate and personal call discrepancies. A full review of the former commissioner's cell phone invoices for the periods before and after the one year period already examined, which total approximately \$16,300, would most likely identify additional rate discrepancies and more personal calls and would result in additional repayment due the state.

The department did not consistently review an employee's continuing need for a cell phone or the appropriateness of the calling plan. The department did not annually review cell phone usage for each account or user, as required by state policy. Invoices showed that roaming charges and airtime charges for some employees exceeded the basic plan charges by significant amounts. A review of these accounts may have resulted in a change to the calling plan to better fit the business needs of those employees. Because of the proliferation of cell phones and the extent to which they have been used for personal calls, the department may want to consider quarterly or semi annual reviews until it has established better control of cell phone use. When ordering new cell phone accounts, the department needs to more carefully match an employee's calling plan to the type of use or anticipated frequency of use.

In early 2003, the department's internal auditor conducted a review of cell phone payments. As in our review, the internal auditor found inconsistencies in the rates used, the identification of personal calls, and the appropriateness of calling plans. The internal auditor's recommendations included clarification of the department's policy to ensure proper reimbursement by employees for personal calls, and reviews by management to ensure the continued need for the cell phone assignment, the appropriateness of the assigned calling plans, and a review of users with a high number of cell phone minutes. The department discussed these recommendations with its

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managers, who reviewed cell phone assignments and calling plans. They identified some staff that no longer required access to a cell phone and adjusted calling plans for some other staff.

Recommendations

- *The Department of Corrections should allow employees only limited and reasonable personal use of state owned cell phones to ensure personal usage does not result in any additional cost to the state for loss of time or resources.*
- *The department should consistently review employee cell phone use to verify the employee's continuing business need for the cell phone and the appropriateness of the calling plan to meet that business need.*
- *The department should review the former commissioner's remaining cell phone invoices and obtain repayment for any personal charges not previously reimbursed. The department should analyze other significant cell phone accounts and determine whether it needs to make additional recoveries for personal use or improper reimbursement rate errors.*

3. The Department of Corrections did not comply with special expense requirements.

The department did not properly enforce its special expense policy requirements and did not monitor actual expenditures related to approved requests to determine that they complied with policy guidelines, limits, or eligible types of expenditures. As a result, some special expenses may not have been allowable and may not have served a business and/or public purpose.

The department established a policy addressing special expenses that incorporated the Department of Employee Relations' administrative procedure. We examined 21 central office special expense payments and identified the following policy violations:

- For 15 payments, the department did not obtain or document authorizations and/or advance approval before incurring special expenses.
- For 14 payments, the department did not document the participants at special expense events.
- For 15 payments, the department did not adequately document the business purpose of the special expense.

The department does not have an adequate process to monitor that the actual expenditures incurred complied with the authorized request or that the expenditures were within approved limits. Special expenses are for purchases and events not normally allowable under state guidelines. The department should clearly document special expense authorizations and monitor and document the actual expenditures related to the purchase or event to ensure compliance with state policy. Without sufficient documentation and effective monitoring, the department cannot determine if the charges assessed were proper according to its internal policy and the guidelines established by the Department of Employee Relations.

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Recommendation

- *The Department of Corrections should document authorizations of special expense requests and verify that the requests contain all necessary information about the purchase or event to support its public purpose. The department should also monitor actual expenditures to ensure compliance with annual limits and the eligibility of the expenditures.*

Chapter 5. Correctional Industries' Accounts Receivable

Chapter Conclusions

The Department of Corrections established adequate control over accounts receivable for the correctional industries program to ensure it complied with material legal provisions and state policies and procedures and accurately documented, approved, and recorded amounts on the state's accounting system. The department took appropriate action to monitor accounts receivable balances and to collect overdue accounts. For the items tested, the department complied with material legal provisions and state policies and procedures.

MINNCOR, the department's correctional industries program for inmates, sells a wide variety of products and services to government agencies and other customers. The program not only focuses on providing job training to the inmate workforce, but also operates as a profit centered business. Through fiscal year 2002, the state's General Fund provided a subsidy to the operation, but the program must become self sufficient in 2003. To operate effectively, MINNCOR should have adequate control over its accounts receivable to minimize the extent of uncollectible accounts.

Table 5-1 identifies sales and accounts receivable for fiscal year 2002 summarized by customer category. Nearly 40 percent of the June 30, 2002, receivable balance was due from other state agencies, and another 20 percent was due from the University of Minnesota, schools, and local governments. The risk of uncollectible accounts from these entities is lower than that of private business.

Table 5-1
MINNCOR Sales and Accounts Receivable
Fiscal Year 2002

Type of Customer	Sales Fiscal Year 2002	Accounts Receivable at June 30, 2002
State Agencies	\$15,210,365	\$ 997,005
Contract Customers	4,866,526	651,144
Private Businesses	917,450	311,751
University of Minnesota	760,707	370,461
Cities	658,107	42,496
Schools	413,865	23,857
Counties	405,040	41,030
Nonprofit Organizations	238,316	40,198
Other States	141,551	5,833
Private Individuals	74,872	11,696
Federal Government	13,454	3,900
Total	<u>\$23,700,253</u>	<u>\$2,499,371</u>

Source: Sales are from MINNCOR Report on Entity Sales Analysis by Fiscal Year as of 2/28/03.

Department of Corrections

Audit Objectives and Methodology

Our audit of MINNCOR accounts receivable addressed the following questions:

- Did the Department of Corrections establish controls to provide reasonable assurance that it complied with material legal provisions and state policies and procedures and accurately documented, approved, and recorded MINNCOR accounts receivable transactions on the state's accounting system?
- Did the Department of Corrections take appropriate action to monitor accounts receivable balances and to collect overdue accounts?
- Did the Department of Corrections comply with material finance-related legal provisions and state policies and procedures pertaining to MINNCOR accounts receivable transactions?

To address these objectives, we made inquiries of the department's staff to gain an understanding of internal controls over the correctional industries' accounts receivable activity. We tested transactions for proper documentation and authorization to determine if controls were properly functioning. We reviewed computer system security access privileges and tested for the referral of uncollectible accounts to the state's collection agency.

Conclusions

The Department of Corrections established adequate control over accounts receivable for the correctional industries program to ensure it complied with material legal provisions and state policies and procedures and accurately documented, approved, and recorded amounts on the state's accounting system. The department took appropriate action to monitor correctional industries' accounts receivable balances and to collect overdue accounts. For the items tested, the department complied with material legal provisions and state policies and procedures.

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Status of Prior Audit Issues

As of June 26, 2003

Most Recent Audit

Legislative Audit Report 00-32, issued in July 2000, examined the budgetary controls and general financial management of the Department of Corrections. Employee payroll and certain operating expenditures, including rent, utilities, professional and technical services, supplies and equipment were also reviewed. The audit report contained four findings with recommendations for improvement. Three recommendations were substantially implemented. The fourth recommendation, pertaining to an employee overpayment of \$9,873 due to a processing error, was submitted to the Attorney General's Office for further collection efforts.

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.

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State of Minnesota
Minnesota Department of Corrections

October 16, 2003

James R. Nobles, Legislative Auditor
Office of the Legislative Auditor
Room 140 Centennial Building
658 Cedar Street
St. Paul, MN 55155-1603

Dear Mr. Nobles:

Thank you for the opportunity to discuss and comment on the recommendations arising from the selected scope audit of the Department of Corrections. The efforts of your office are appreciated in conjunction with completing this audit. Below please find a response for each finding in the audit report.

Recommendation

The Department of Corrections should ensure facilities comply with contract requirements for retainage and billing documentation.

Response

The Department of Corrections agrees with the recommendation that all contract requirements be in compliance. Appropriate billing documentation must be collected and reviewed by every facility. The retainage clause should also be utilized if specified in the contract.

The department will implement this recommendation by requiring the food service contractor to provide detailed monthly billings to every facility. To ensure this practice is occurring the central office staff coordinating the contract will require facilities to send copies for verification on a quarterly basis. If retainage clauses are used in these contracts the department will require enforcement. The central office coordinator will work closely with the facilities to ensure final payments are not made without central office approval.

Person Responsible:
Mike Hermerding

Estimated Completion Date:
November 1, 2003

Recommendation

The Department of Corrections should allow employees only limited and reasonable personal use of state owned cell phones to ensure personal usage does not result in any additional cost to the state for loss of time or resources.

Response

The Department of Corrections agrees with this finding. The department will clearly communicate to all staff what appropriate usage of cell phones actually means. The policy will be updated and staff will immediately be informed of the policy change. Training will be provided for any staff that may need additional assistance with the policy change or interpretation. Supervisors will review and approve all monthly cell phone invoices for each of their staff. Internal audits will be completed on a regular cycle.

Person Responsible:
Lisa Cornelius

Estimated Completion Date:
December 2003

Recommendation

The department should establish regular reviews of employee cell phone use to verify the employees' continuing business need for the cell phone and the appropriateness of the calling plan to meet that business need.

Response

Due to the nature of business performed by the Department of Corrections cell phones are a necessity. It is imperative to regulate and monitor all phone use. Clear policies and guidelines will be established to ensure all cell phones purchased are for a legitimate business needs and calling plans will be monitored by supervisors to regulate plan appropriateness. Internal audits will be completed on a regular cycle.

Person Responsible:
Lisa Cornelius

Estimated Completion Date:
December 2003

Recommendation

The department should review the former commissioner's remaining cell phone invoices and obtain repayment for any personal charges not previously reimbursed. The department should analyze other significant cell phone accounts and determine whether it needs to make additional recoveries for personal use or improper reimbursement rate errors.

Response

The Department of Corrections will comply with this finding. The former commissioner's remaining cell phone invoices will be audited by an outside agency and repayment will be expected for any outstanding personal charges determined from this audit. The department internal auditor will complete an analysis of all other significant cell phone accounts and perform detailed audits if necessary.

Person Responsible:
Lisa Cornelius

Estimated Completion Date:
February 2004

Recommendation

The Department of Corrections should document authorizations of special expense requests and verify that the requests contain all necessary information about the purchase or event to support its public purpose. The department should also monitor actual expenditures to ensure compliance with annual limits and the eligibility of the expenditures.

Response

The Department of Corrections agrees with this finding and will enforce policy adherence for all areas within the department. Training will be provided to staff so the policy is clearly understood. Fiscal services will develop a method to monitor actual expenditures to ensure compliance with annual limits.

Person Responsible:
Lisa Cornelius

Estimated Completion Date:
December 2003

It is the goal of the department to have corrected all of the audit report findings no later than February 2004. It is possible the cell phone audit of the former commissioner may take some additional time due to the reliance on another state agency. Thank you again for the efforts of your staff.

Sincerely,

/s/ Joan Fabian

Joan Fabian
Commissioner

Copy: Dennis Benson, Deputy Commissioner
Harley Nelson, Deputy Commissioner
Lisa Cornelius, Agency Chief Financial Officer