



**OFFICE OF THE LEGISLATIVE AUDITOR**  
STATE OF MINNESOTA

Financial Audit Division Report

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# **Office of the Ombudsman for Mental Health and Mental Retardation**



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## 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 forty 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.

Through its Program Evaluation Division, OLA conducts several evaluations each year.

OLA is under the direction of the Legislative Auditor, who is appointed for a six-year term by the Legislative Audit Commission (LAC). The LAC is a bipartisan commission of representatives and senators. It annually selects topics for the Program Evaluation Division, but is generally not involved in scheduling financial audits.

All findings, conclusions, and recommendations in reports issued by the Office of the Legislative Auditor are solely the responsibility of the office and may not reflect the views of the LAC, its individual members, or other members of the Minnesota Legislature.

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## OFFICE OF THE LEGISLATIVE AUDITOR

State of Minnesota • James Nobles, Legislative Auditor

Senator Ann H. Rest, Chair  
Legislative Audit Commission

Members of the Legislative Audit Commission

Ms. Roberta Opheim, Ombudsman  
Office of the Ombudsman for Mental Health and Mental Retardation

We conducted an audit of the Office of the Ombudsman for Mental Health and Mental Retardation for the period July 1, 2000, through June 30, 2004. Our audit scope included payroll (through December 2004), operating expenditures, and a review of the Crime Victim Ombudsman payroll for fiscal year 2003. Our objectives focused on a review of the office's internal controls over these financial activities and its compliance with applicable legal provisions.

The enclosed Report Summary highlights our overall audit conclusions. The specific audit objectives and conclusions for each area are contained in the individual chapters of this report.

We would like to thank staff from the Office of the Ombudsman for Mental Health and Mental Retardation for their cooperation during this audit.

*/s/ James R. Nobles*

James R. Nobles  
Legislative Auditor

*/s/ Claudia J. Gudvangen*

Claudia J. Gudvangen, CPA  
Deputy Legislative Auditor

End of Fieldwork: April 19, 2005

Report Signed On: July 12, 2005

# Office of the Ombudsman for Mental Health and Mental Retardation

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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
Jeanine Leifeld, CPA, CISA	Audit Manager
April Snyder	Auditor-in-Charge
Laurinda Zavala	Auditor

### **Exit Conference**

We discussed the results of the audit with the following representatives of the Office of the Ombudsman for Mental Health and Mental Retardation at an exit conference on May 5, 2005:

Roberta Opheim	Ombudsman
Paul Doyle	Director of Policy and Administration Services
Brian Relay	Director of Client Services
Jody Powers	Executive Assistant

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## Report Summary

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### Key Findings:

- The office did not follow proper procedures when awarding and paying one consultant's contracts. The office had four contracts with the same consultant during the audit period. (Finding 1, page 5)
- The office incorrectly coded some expenditures on the state's accounting system. (Finding 2, page 7)
- The Crime Victim Ombudsman incorrectly recorded payroll transactions in the payroll system, resulting in overpayments and underpayments to employees. (Finding 5, page 14)

The audit report contained five audit findings relating to internal control and legal compliance. The office did not resolve one finding included in our prior audit report, and we have repeated it in this report.

### Audit Scope:

#### Audit Period:

July 1, 2000, through June 30, 2004

#### Selected Audit Areas:

- Payroll Expenditures (through December 2004)
- Administrative Expenditures
- Crime Victim Ombudsman Payroll (fiscal year 2003 only)

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### Agency Background:

The Legislature established the Office of the Ombudsman for Mental Health and Mental Retardation in 1987 to "promote the highest attainable standards of treatment, competence, efficiency, and justice...for persons receiving services or treatment for mental illness, mental retardation or a related condition, chemical dependency, or emotional disturbance...." The office receives appropriations of approximately \$1.4 million per year. Pursuant to Executive Reorganization Order Nos. 184 and 187, the activities of the Crime Victim Ombudsman were transferred to the office for the period from July 6, 2002, through April 15, 2003.

**Office of the Ombudsman for Mental Health and Mental Retardation**

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## Chapter 1. Introduction

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The Office of the Legislative Auditor selected the Office of the Ombudsman for Mental Health and Mental Retardation for audit based on an annual assessment of state agencies and programs. We used various criteria to determine the entities to audit, including the size and type of each agency's financial operations, length of time since the last audit, changes in organizational structure and key personnel, and available audit resources. It had been four years since our last audit of the Office of the Ombudsman for Mental Health and Mental Retardation.

### Agency Overview

The Legislature established the Office of the Ombudsman for Mental Health and Mental Retardation in 1987 to “promote the highest attainable standards of treatment, competence, efficiency, and justice...for persons receiving services or treatment for mental illness, mental retardation or a related condition, chemical dependency, or emotional disturbance....” Among other things, the Ombudsman has the authority to mediate and advocate on behalf of clients, and to investigate the quality of services provided to clients.

The Office of the Ombudsman for Mental Health and Mental Retardation has its main office in St. Paul, with offices in Duluth, and regional offices located at the Regional Treatment Centers in Anoka, Brainerd, Fergus Falls, St. Peter, and Willmar. Each regional office has an advocate available to assist clients and others.

Pursuant to Executive Reorganization Order Nos. 184 and 187, the activities of the Crime Victim Ombudsman were transferred to the Office of the Ombudsman for Mental Health and Mental Retardation for the period from July 6, 2002, through April 15, 2003. We discuss the reorganization and the Crime Victim Ombudsman's financial activities in more detail in Chapter 4 of this report.

### Audit Approach

Our audit was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we obtain an understanding of the office's internal controls relevant to the audit objectives. We used the guidance contained in *Internal Control-Integrated Framework*, published by the Committee of Sponsoring Organizations of the Treadway Commission, as our criteria to evaluate agency controls. The standards also require that we plan the audit to provide reasonable assurance that the office complied with financial-related legal provisions that are significant to the audit. In determining the office's compliance with legal provisions, we considered requirements of laws, regulations, and contracts.

To meet the audit objectives, we gained an understanding of the Office of the Ombudsman for Mental Health and Mental Retardation's financial policies and procedures. We considered the

## Office of the Ombudsman for Mental Health and Mental Retardation

risk of errors in the accounting records and noncompliance with relevant legal provisions. We analyzed accounting data to identify unusual trends or significant changes in financial operations. We examined documents supporting the office's internal controls and compliance with laws, regulations, and contract provisions.

Table 1-1 shows the financial activity of the Office of the Ombudsman for Mental Health and Mental Retardation for fiscal years 2001 through 2004.

	<u>2001</u>	<u>2002</u>	<u>2003</u> <sup>(3)</sup>	<u>2004</u>
<b>Sources:</b>				
State Appropriations <sup>(1)</sup>	\$1,360,523	\$1,419,000	\$1,318,761	\$1,439,000
Interagency Agreement <sup>(2)</sup>	70,455	0	0	0
Transfers-In	16,879	0	0	0
Balance Forward In	112,870	16,420	81,586	0
<b>Total Sources</b>	<u><b>\$1,560,727</b></u>	<u><b>\$1,435,420</b></u>	<u><b>\$1,400,347</b></u>	<u><b>\$1,439,000</b></u>
<b>Uses:</b>				
Payroll	\$1,204,078	\$1,172,958	\$1,201,214	\$1,195,757
Rent	63,154	62,704	63,186	52,767
Printing & Advertising	27,112	9,242	8,550	4,429
Professional/Technical Services	66,787	19,316	17,976	4,032
Communications	39,427	25,186	23,509	14,079
Travel	30,181	29,600	19,762	33,283
Supplies	46,143	16,134	19,922	15,279
Equipment	52,801	12,369	38,766	10,119
Other Expenditures	14,624	6,325	7,462	10,474
<b>Total Expenditures</b>	<u><b>\$1,544,307</b></u>	<u><b>\$1,353,834</b></u>	<u><b>\$1,400,347</b></u>	<u><b>\$1,340,219</b></u>
Balance Forward Out	16,420	81,586	0	98,781
<b>Total Uses</b>	<u><b>\$1,560,727</b></u>	<u><b>\$1,435,420</b></u>	<u><b>\$1,400,347</b></u>	<u><b>\$1,439,000</b></u>

Note 1: The fiscal year 2001 and 2003 state appropriation totals are net of cancellations of \$17,477 and \$143,239, respectively. The fiscal year 2004 state appropriation total is net of reverted funds totaling \$23,000.

2: In fiscal year 2001, the office had an interagency agreement with the Department of Human Services to provide an external advocate for the Demonstration Project for Persons with Disabilities.

3: Fiscal year 2003 activity does not include the financial activities of the Crime Victim Ombudsman that were coded to the Office of Ombudsman for Mental Health and Mental Retardation in the state's accounting system. Table 4-1 provides details of the Crime Victim Ombudsman's financial activities for fiscal year 2003.

Source: Minnesota Accounting and Procurement System (MAPS) for fiscal years 2001 through 2004, as of December 31, 2004.



## Chapter 2. Administrative Expenditures

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### *Chapter Conclusions*

*The Office of the Ombudsman for Mental Health and Mental Retardation did not comply with applicable legal provisions when awarding contracts to one consultant. In addition, the office incorrectly recorded some expenditure transactions on the state's accounting system. For some administrative expenditures, the office did not maintain adequate supporting documentation.*

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### **Audit Objectives**

Our review of the Office of the Ombudsman for Mental Health and Mental Retardation's nonpayroll administrative expenditures focused on the following questions:

- Did the office's internal controls provide reasonable assurance that operating expenditures were accurately reported in the accounting records and in compliance with applicable legal provisions and management's authorization?
- For the items tested, did the office comply, in all material respects, with the significant finance-related legal provisions concerning these expenditures?

### **Background**

The office's nonpayroll administrative expenditures include rent, purchased services, business expenses (including travel), supplies and materials, communications, computer and systems services, repairs, alterations and maintenance, printing and advertising, employee development, and equipment. As can be seen in Table 1-1, nonpayroll expenditures totaled approximately \$864,700, or 15 percent of the office's total expenditures during the audit period. The Ombudsman for Mental Health and Mental Retardation uses the Minnesota Accounting and Procurement System (MAPS) to pay vendors and record administrative expenditures.

### **Current Findings and Recommendations**

#### **1. The Office of the Ombudsman for Mental Health and Mental Retardation did not follow proper procedures when awarding and paying one consultant's contracts.**

The office did not follow the state's required procedures when contracting with one technology consultant. During the period from August 2002 through October 2003, the office had three different contracts with DUIR Synergies for an on-line data entry project. This project was intended to let outside parties enter client reviews, death reviews, and serious injury reports

## Office of the Ombudsman for Mental Health and Mental Retardation

directly into the office's database. The office also had a contract with DUIR Synergies for the support and maintenance of its network server, wide-area-network, and installed software. Three of the four contracts were for slightly less than \$5,000, thus avoiding the state's requirements for public notice and solicitation. Some of the contract periods overlapped.

The office did not give public notice or solicit for the on-line data entry project. For that project, the three contract periods were: August 2002 - November 2002, October 2002 - June 2003, and August 2003 - October 2003, with contract totals of \$4,993, \$4,975, and \$2,250, respectively. The office followed the procedures for contracts under \$5,000, even though the total contracted work was \$12,218. Considering the total amount of the three contracts, we believe that the office should have followed the requirements of the Department of Administration's Professional/Technical Control Manual for contracts over \$5,000. Under those requirements, "informal solicitations must be prepared and submitted to Admin[istration]'s Materials Management Division for approval and public notice posting on its web page." The office also did not voluntarily attempt to solicit other potential vendors for the support and maintenance contract. Rather, it used DUIR Synergies, which it already had under contract for the on-line data entry project. The support and maintenance contract was for \$4,993 and covered the period from October 2002 to June 2003. The lack of a competitive process may have compromised the quality or price of the services the office received. The office eventually decided to abandon the on-line data entry project, which was never completed.

In addition, the office did not follow the contracts' payment terms. It did not withhold retainage on any of the DUIR Synergies contract payments, although each contract included a retainage clause, stating that the office would only pay 90 percent of the contract, pending final satisfaction of all contract terms. Retaining a portion of the contract amount pending the vendor's satisfactory completion of contract services is a statutory requirement for state agencies.

Finally, the office did not adequately review the contractor's invoices. The contractor billed \$2,300 in on-line data entry project costs on the support and maintenance contract invoices. As a result, the office paid these costs out of the wrong contract's funds. However, we saw no evidence that the contractor was overpaid in total for the contracts.

### *Recommendations*

- *The office should follow the state's contracting policies. It should not circumvent state procedures by splitting contracts into smaller, individual pieces.*
- *The office should withhold retainage whenever required by the terms of the contract.*
- *The office should review all contract invoices for accuracy before payment.*

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### **2. PRIOR FINDING NOT RESOLVED: The Office of the Ombudsman for Mental Health and Mental Retardation incorrectly recorded some expenditures on the state's accounting system.**

In several cases, the office did not record expenditure transactions properly. It used incorrect record dates, as well as incorrect expenditure and earnings codes.

The office used incorrect record dates for 22 out of 63 sample items tested. In three additional cases, we could not determine the correct record date due to missing documentation. In some cases, the office chose the wrong date and, in other cases, it allowed the record date to default to the payment date. The Department of Finance uses the record date to determine the state's outstanding liabilities at year-end for financial reporting purposes.

In 8 of 63 sample items tested, the office incorrectly entered or allowed the accounting system to default to incorrect expenditure object classes. For example, the office recorded rent of a parking space to in-state travel; computer software as supplies, instead of software purchases; and computer peripherals as supplies, instead of computer equipment. In addition, for 4 of 94 business expense items tested, the office entered the wrong earning code into the state's personnel system. In two cases, the office coded "meals with lodging" as "meals without lodging." The coding is important because "meals without lodging" are taxable, while "meals with lodging" are not. It is also important that the office properly code its expenditures to provide an accurate summary of purchases.

#### *Recommendation*

- *The department should use the correct coding, including record dates, object code, and earnings code, when making payments.*

### **3. The Office of the Ombudsman for Mental Health and Mental Retardation did not maintain supporting documentation for some administrative expenditure transactions.**

The office did not have documentation for certain expenditure transactions. In four instances, the office could not find detailed receipts to support employee business reimbursement requests for postage and nonmetered parking. In one case, the office could not find any documentation to support the disbursement, and in two additional cases, invoices were missing. In addition, there was no evidence of receipt of goods for 3 out of 63 sample items tested. Incomplete documentation increases the risk that the office could pay for items it did not receive or it does not possess.

The office also did not follow the Department of Employee Relations' procedure to document approval for certain special expenses. The office paid for three advisory committee luncheons classified as "special expenses." The office could not document that it had reviewed and approved these luncheons in advance. Special expenses are expenses incurred in connection with the official functions of the agency that are not reimbursable through the regular expense regulations. The Employee Relations procedure requires agencies to document and approve special expense requests before any costs are incurred.

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Finally, the office also did not complete the appropriate form to document a department head expense. Pursuant to *Minnesota Statutes*, Section 15A.081, Subd. 8, agency heads can use up to \$1,500 per year to pay certain nonroutine expenses related to their position. The Department of Finance requires agencies to document the purpose and appropriateness of these expenses before they are incurred.

### *Recommendations*

- *The office should maintain all supporting documentation for administrative expenditure transactions.*
- *The office should complete and retain the appropriate forms to document special expenses and department head expenses.*

## Chapter 3. Payroll

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### *Chapter Conclusions*

*The Office of the Ombudsman for Mental Health and Mental Retardation's internal controls during the audit period provided reasonable assurance that payroll expenditures were accurately reported in the accounting records and in compliance with applicable legal provisions and management's authorizations. For the items tested, the Office of the Ombudsman for Mental Health and Mental Retardation complied with significant finance-related legal provisions concerning payroll.*

*The office implemented the state's new automated self service payroll time entry process in November 2004. The office did not ensure that payroll expenditures were accurately reported under the new process because it did not review a key system report.*

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### **Audit Objectives**

Our audit of payroll expenditures focused on the following questions:

- Did the office's internal controls over the paper timesheet process (from July 2000 through June 2004) provide reasonable assurance that payroll expenditures were accurately reported in the accounting records and in compliance with applicable legal provisions and management's authorization?
- Did the office limit access to the state's personnel and payroll system to only those employees that required access to perform job responsibilities? Was access limited to only the required areas?
- Did the office ensure that employee time reporting under the new self service time entry system (beginning in November 2004) provided sufficient control over the hours paid through the state's payroll system?

### **Background**

The Office of the Ombudsman for Mental Health and Mental Retardation has approximately 20 employees. These employees belong to various bargaining units and compensation plans, including the American Federation of State, County, and Municipal Employees, Minnesota Association of Professional Employees, Middle Management Association, Commissioner's Plan,

## Office of the Ombudsman for Mental Health and Mental Retardation

and Managerial Plan. The office uses the state's computerized system, the State Employee Management System (SEMA4), to process its personnel and payroll transactions.

### Paper Timesheet Process

Prior to November 2004, the office's employees used paper timesheets to record hours worked. Our testing included whether a timesheet existed, whether it was signed by an employee and their supervisor, and whether it had been input accurately into the state's payroll system.

### Self Service Time Entry Process

In November 2004, the office's employees began to enter time worked directly into SEMA4, the state's personnel and payroll system. This self service time entry automated the employee's timesheet and allowed for electronic supervisory approvals. It is designed to promote the ideal control of having each employee prepare a timesheet and having the employee's direct supervisor authorize it. However, it allows for flexibility to accommodate situations that may delay timely payroll processing. For example, if an employee is not at work at the end of the pay period, perhaps due to illness, and has not completed a timesheet, the supervisor can complete the timesheet for the employee. Also, if a supervisor is unavailable to provide for timely authorization of an employee's completed timesheet, a backup supervisor can provide the needed authorization.

Table 2-1 shows the responsibilities expected by the Department of Finance for a department using self service time entry.

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**Table 2-1**  
**Self Service Time Entry Responsibilities by Position**

**Employees**

- Enter time. Mark time entry as "Complete."

**Managers or Supervisors**

- Review and authorize employee's time records.
- Mark departments "Ready to Load" to the state's payroll system.

**Payroll Staff**

- Monitor the progress in completing self service time entry.
- Review time entry and validate for upload into the state's payroll system.
- Review the *Self Service Time Entry Audit Report (Report HR2460)*.
- Run on-demand reports as needed.

Source: Minnesota Department of Finance Self Service Time Entry Instructions, edited by the OLA.

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In establishing responsibilities for self service time entry, the office grouped employees into payroll departments. For each department, the office designated a primary manager and two backup managers. In addition, the office designated the payroll administrator as backup manager for all departments. The departments are small enough to allow a sufficient level of review by

## **Office of the Ombudsman for Mental Health and Mental Retardation**

the manager at the end of the pay period. The manager reviewing the employee's time entry should be someone who has knowledge of the employee's work hours and attendance.

### **Current Finding and Recommendation**

#### **4. The Office of the Ombudsman for Mental Health and Mental Retardation did not access and review a key system report related to payroll self service time entry.**

The office did not review the self service time entry exception report produced through SEMA4. Each pay period, the office can access the Self Service Time Entry Audit Report, produced by the Department of Finance. This report details the self time entry transactions that did not meet the ideal control conditions. It lists those employees who did not personally complete their time entry, and the ID and name of the manager who completed time entry for the employee; and employees whose time entry was approved by someone other than the primary manager for the department, and the ID and name of the backup manager who actually approved the time. This information is important for maintaining the integrity and accuracy of the time reporting process.

#### *Recommendation*

- *The office should access and review the Self Service Time Entry Audit Report each pay period.*

**Office of the Ombudsman for Mental Health and Mental Retardation**

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## Chapter 4. Crime Victim Ombudsman

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### *Chapter Conclusions*

*Pursuant to Executive Reorganization Order Nos. 184 and 187, the activities of the Crime Victim Ombudsman were transferred to the Office of the Ombudsman for Mental Health and Mental Retardation for the period from July 6, 2002, through April 15, 2003. During fiscal year 2003, the Crime Victim Ombudsman did not accurately report payroll expenditures in the accounting records nor comply with applicable legal provisions. As a result, the Ombudsman overpaid and underpaid some employees. Also, we were unable to conclude on some payroll transactions because of missing timesheets.*

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### **Audit Objective**

Our review of the Crime Victim Ombudsman's payroll expenditures focused on the following question:

- Did the Crime Victim Ombudsman accurately report its payroll expenditures in the accounting records and comply with applicable legal provisions and management's authorization in all material respects?

### **Background**

Reorganization Order No. 184 transferred the activities of the Crime Victim Ombudsman from the Department of Public Safety to the Office of the Ombudsman for Mental Health and Mental Retardation effective July 6, 2002. Per the order, "all the administrative, regulatory, recordkeeping, investigative, rulemaking, and enforcement powers heretofore possessed by the Commissioner of Public Safety...[transfers]...to the Office of the Ombudsman for Mental Health and Mental Retardation." This also included "all contracts, books, maps, plans, papers, records, supplies and equipment relating to the transferred activities." The records did not, in fact, ever move to the Office of the Ombudsman for Mental Health and Mental Retardation. Even at the time of our audit, the financial records were scattered between the departments of Public Safety, Finance, and Employee Relations. We were unable to ever locate several timesheets and some worker's compensation invoices, and so were unable to conclude on the appropriateness of some transactions. Effective April 15, 2003, Reorganization Order No. 187 repealed Reorganization Order No. 184, moving all the Crime Victim Ombudsman functions and powers back to the Department of Public Safety.

The Crime Victim Ombudsman activities were never integrated into the Office of the Ombudsman for Mental Health and Mental Retardation. After the reorganization, the

## Office of the Ombudsman for Mental Health and Mental Retardation

Department of Finance continued to provide administrative services for the Crime Victim Ombudsman and the Crime Victim Ombudsman entered its own payroll transactions. As a result, the Ombudsman for Mental Health and Mental Retardation did not have operational control over the Crime Victim Ombudsman's activities and did not exercise any day-to-day supervision. Table 4-1 shows the financial activity of the Crime Victim Ombudsman for fiscal year 2003.

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**Table 4-1**  
**Crime Victim Ombudsman <sup>(1)</sup>**  
**Financial Sources and Uses**  
**Fiscal Years 2003**

	<u>2003</u>
<b>Sources:</b>	
Transfers-In <sup>(2)</sup>	<u>\$347,938</u>
Total Sources	<u>\$347,938</u>
<b>Uses:</b>	
Payroll	\$260,848
Other Expenditures	<u>87,090</u>
Total Uses	<u>\$347,938</u>

Note 1: These are the sources and uses of funds for the Crime Victim Ombudsman only.

Note 2: The fiscal year 2003 transfer in from the Department of Public Safety is net of cancellations of \$103,243.

Source: Minnesota Accounting and Procurement System (MAPS) as of December 31, 2004.

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### Current Finding and Recommendation

#### **5. The Crime Victim Ombudsman incorrectly recorded payroll in the payroll system, resulting in overpayments and underpayments to employees.**

The Crime Victim Ombudsman did not accurately record payroll in the payroll system. The payroll clerk made several errors when coding employee time. This created overpayments and underpayments to some employees, including the following:

- For one employee, the payroll clerk miscoded eight hours to regular time instead of vacation. This caused eight extra hours to be in the vacation balance when the employee was laid off. The employee was overpaid \$266.
- For another employee, the payroll clerk miscoded four hours of sick leave to four hours of regular time. This caused the sick leave balance to be overstated by four hours. The employee signed the timesheet, but the supervisor did not. The employee was overpaid \$34.
- Finally, two employees were not paid severance when they were laid off. Per the Minnesota Association of Professional Employees labor agreement, "employees with less than 20 years [of] continuous State service shall receive severance upon...layoff...."

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Severance is 40 percent of the sick leave balance at the time of layoff. This created underpayments of \$22 and \$273 to the two employees, respectively.

### *Recommendation*

- *The Office of the Ombudsman for Mental Health and Mental Retardation should work with the Departments of Public Safety and Finance to determine whether any of the overpayments and underpayments to Crime Victim Ombudsman employees must be pursued.*

**Office of the Ombudsman for Mental Health and Mental Retardation**

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**Status of Prior Audit Issues  
As of April 19, 2005**

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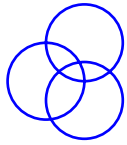
**Legislative Audit Report 01-32**, issued in June 2001, covered the three fiscal years ending June 30, 2000. The audit focused on the internal control structure over payroll, other administrative expenditures, and interagency agreements, as well as testing for compliance with finance-related legal provisions. The report contained six audit findings. The office sufficiently resolved five of the issues. We repeat the issue concerning incorrect coding in the accounting system as part of Finding 2 of the current report.

**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 metropolitan agencies or the State Agricultural Society, the state constitutional officers, or the judicial branch.

**Office of the Ombudsman for Mental Health and Mental Retardation**

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State of Minnesota

## Office of the Ombudsman for Mental Health and Mental Retardation

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July 6, 2005

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

Dear Mr. Nobles,

I have reviewed the audit report prepared by your staff covering the period from July 1, 2000 through June 30, 2004, related to financial controls for the Office of Ombudsman for Mental Health and Mental Retardation. This agency has discussed the contents of the report with staff from your agency. Attached is a copy of our response to the issues raised in your report along with actions this agency has taken or will take to address those issues.

I would like to thank April Snyder and Jeanine Leifeld for the professional way this audit was handled. I continue to view the audit process and subsequent recommendations as a continuous learning and quality improvement process.

All of our administrative staff strives to comply with all state laws and rules and perform their functions using sound accounting principles. They rigorously investigate procedures they are not familiar with, contact help desks for the MAPS and SEMA4 systems and agency contract assistance staff when unsure of how to proceed. However due to the size of the agency, the number of administrative staff, and the number of complex administrative tasks that agencies must perform regardless of size, we do not have the time or ability to have any one person become an expert in a specialized area.

As was discussed in the exit interview, I ask that this report be viewed in context of the limitations of staff and resources within small agencies. Accordingly, we view this process as a resource to assist us in our efforts to understand and comply with state policies.

Please do not hesitate to contact me if you or members of your agency have further questions.

Sincerely,

Roberta C. Opheim  
Ombudsman



State of Minnesota

**Office of the Ombudsman for Mental Health and Mental Retardation  
July 6, 2005**

**Official Response to the Office of Legislative Auditor  
Audit Report covering July 1, 2000 through June 30, 2004**

**Agency Context**

The Office of Ombudsman for Mental Health and Mental Retardation is a small independent state agency. During the period of the audit, it employed less than 20 FTEs (employees). Regardless of size, the agency is required to comply with all of the same financial and administrative procedures as the large state agencies. To perform the financial and administrative functions of the agency, the agency currently has one FTE with manager oversight for internal controls, performing the day to day tasks of the budgeting (BBIS), personnel administration, payroll (SEMA4), purchasing, vendor payments (MAPS), and contract writing and monitoring. Besides these tasks, each of these individuals have a number of other assigned duties they are required to perform that are not related to items covered in a financial audit. The agency also has one part time individual that has been trained on and has performed many of these tasks in the past, but no longer works in our central office. This person is designated as a back up when the agency is faced with illness or vacations.

Agency administrative and supervisory staff has business, hospital and government administrative backgrounds but the agency does not have any accountants or CPAs on staff. By nature of the work done by the agency and the agency's size, staff must be knowledgeable in a whole host of professional areas, which by definition makes them generalists. Accordingly they must rely heavily on the help and assistance of the agency's Department of Finance EBO, help desk associates for BBIS, MAPS and SEMA4, DOER staffing and labor relations divisions, the Department of Administration's contract personnel and other professional contacts when performing a new function or performing a task they perform infrequently. As well, information provided by the above entities is not always consistent or correct.



Because of the number of these functions within the agency, many practices are developed through meeting and conferring between members of a small team. They often agree or come to understandings on procedures and tasks. The downfall is that because of our size, close proximity to each other, and informality of the interactions, members sometimes do not always feel a need to record those procedures. While reasonable practices may have been employed, it may not be documented in a way that is clear to an outside auditor or other interested party.

### **Report Findings and Recommendations**

- **Chapter 2 Finding 1** The office did not follow proper procedures for awarding and paying one consultant contract.

**Response:** Several years ago the agency developed a Case Management System (CMS) with SRM, a state approved vendor. When our internal tech staff had questions recently, SRM stated they no longer had staff that covered Lotus Notes, and referred us to a subcontractor. This showed us just how vulnerable our CMS was; Notes support was getting difficult to obtain.

The agency needed ongoing server and network support, along with programming support. The agency was also developing an on line reporting program. Agency staff was unable to meet the needs, so the subcontractor was brought in after each of the contracts was reviewed and approved by the Department of Administration. We relied on DOA's expertise on the contract issues.

We did not catch improper coding in the contract, even though we were clear with the contractor that billing had to be made to the correct contract. When we were made aware of the incorrect billing and payments we met internally and planned for tighter oversight and controls on all future contracts. At no point did the agency willfully circumvent state policies. It was the intent of the agency to follow proper procedures. With regard to the retainage issue, a change in staff left us with unclear recognition of the retainage amounts. The auditor made us aware of the ability in MAPS to work with retainage, and we now understand and will use this system feature in future contracts.

- **Chapter 2 Finding 2** – Prior finding not resolved: The office incorrectly recorded some expenditures on the state’s accounting system.

**Response:** The agency did not consistently use the correct record dates. Staff was educated by the auditor and now is aware of how to correctly report record dates. For instance, when receiving multiple shipments, the record date is to be the date the final part of the order is received.

The issue of incorrect expenditure classes has also been addressed. Our staff was using an outdated expenditure class list. The auditor assisted in obtaining an up to date list, and that is what is being used. However, there is no mention in the auditor’s report on information presented by staff that when expending funds from a contract, object codes are preset and not alterable. This results in incorrect coding showing up on agency reports. This agency suggests that Materials Management should be asked about this. Please see attached sheets showing the problem.

- **Chapter 2 Finding 3** – The office did not maintain supporting documentation for some administrative expenditure transactions

**Response:** Both staff and management have received additional instruction on the requirement for proper documentation (receipts or affidavits) when forwarding employee expense forms. We expect to be in total compliance from this point forward. Though our policies require using the correct Special Expense forms, we found the forms were not always used properly. We have covered the issue with all staff and managers/supervisors and will comply with the proper use of the forms and supervisor approvals in the future.

The department head expenses are rarely used, and we acknowledge that errors were made in this area. However, all of these expenditures were properly handled. All parties involved have been educated on this issue, and the correct form and timing will be followed in the future.

- **Chapter 3 Finding 1** – The office did not access and review a key system report related to payroll self service time entry.

**Response:** The auditor brought up this issue during the audit. We began self service time entry in late 2004, and feel that the oversight of the report not being signed was due to the newness of the program. In fact, the auditor hadn't seen the system previously, and after we demonstrated the system to the auditor, the error was discovered. We have educated all staff involved in signing off on the report, have complied and will continue to comply with the process

- **Chapter 4 Finding 1** – The Crime Victim Ombudsman (CVO) incorrectly recorded payroll in the payroll system resulting in overpayments and underpayments to employees.

**Response:** The auditor was provided with documentation showing agency attempts to be involved in the process related to Executive Order 184. We were not successful in our attempts to be a part of the process, and were never in control of the CVO funds.

The same is true with Executive Order 187; we requested to be involved but were never given access to the relevant documents. All powers and duties went to the Department of Public Safety.

We agree these situations should have been handled differently but we were not afforded the opportunity to be included in the process.

### **Summary**

This audit has served as an essential learning process for the administrative and management staff of this agency. The agency will continually strive to improve its financial and administrative practices.