



FINANCIAL AUDIT DIVISION REPORT

**Department of Corrections’
Faribault and Shakopee
Facilities**

Internal Control and Compliance Audit

July 1, 2006, through March 31, 2009

August 13, 2009

Report 09-27

FINANCIAL AUDIT DIVISION

Centennial Building – Suite 140

658 Cedar Street – Saint Paul, MN 55155

Telephone: 651-296-4708 • Fax: 651-296-4712

E-mail: auditor@state.mn.us • Web site: <http://www.auditor.leg.state.mn.us>

Through Minnesota Relay: 1-800-627-3529 or 7-1-1

Financial Audit Division

The 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 has a staff of 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.

The Office of the Legislative Auditor (OLA) also has a Program Evaluation Division, which evaluates topics periodically selected by the Legislative Audit Commission.

Reports issued by both OLA divisions are solely the responsibility of OLA and may not reflect the views of the Legislative Audit Commission, its individual members, or other members of the Minnesota Legislature. For more information about OLA reports, go to:

<http://www.auditor.leg.state.mn.us>

To obtain reports in electronic ASCII text, Braille, large print, or audio, call 651-296-4708. People with hearing or speech disabilities may call through Minnesota Relay by dialing 7-1-1 or 1-800-627-3529.

To offer comments about our work or suggest an audit, investigation, or evaluation, call 651-296-4708 or e-mail auditor@state.mn.us.



OFFICE OF THE LEGISLATIVE AUDITOR

State of Minnesota • James Nobles, Legislative Auditor

August 13, 2009

Senator Ann H. Rest, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Joan Fabian, Commissioner
Department of Corrections

Ms. Connie Roehrich, Warden
Minnesota Correctional Facility – Faribault

Ms. Tracy Beltz, Warden
Minnesota Correctional Facility – Shakopee

This report contains the results of our internal control and compliance audit of the Department of Corrections' facilities at Faribault and Shakopee for the period July 1, 2006, through March 31, 2009.

We discussed the results of the audit with the Department of Corrections and Faribault and Shakopee facilities on August 3, 2009. The audit was conducted by David Poliseno, CPA, CISA, CFE (Audit Manager) and Pat Ryan (Auditor-in-Charge), assisted by auditors Thom Derus and Paul Thompson.

We received the full cooperation of the Department of Corrections and Faribault and Shakopee facilities while performing this audit.

/s/ James R. Nobles

James R. Nobles
Legislative Auditor

/s/ Cecile M. Ferkul

Cecile M. Ferkul, CPA, CISA
Deputy Legislative Auditor

Table of Contents

	<u>Page</u>
Report Summary	1
Agency Overview	3
Objectives, Scope, and Methodology	5
Conclusions.....	6
Finding and Recommendations.....	7
1. The Faribault and Shakopee correctional facilities did not retain documentation to support management's prior authorization for employee overtime.....	7
Agency Response.....	9

Report Summary

Conclusions

The Minnesota Department of Corrections' business office for the correctional facilities at Faribault and Shakopee generally had adequate internal controls to ensure that it safeguarded assets, produced reliable financial information, and complied with finance-related legal requirements. For the items tested, the department complied with finance-related legal requirements over its financial activities.

Finding

The Faribault and Shakopee correctional facilities did not retain documentation to support management's prior authorization for employee overtime. ([Finding 1, page 7](#))

Audit Objectives and Scope

Objectives

- Internal Controls
- Legal Compliance
- Financially Prudent Operations

Period Audited

July 1, 2006, through March 31, 2009

Programs Audited

- | | |
|--|----------------------------|
| • Payroll Expenditures | • Offender Accounts |
| • Travel Expenditures | • Computer System Security |
| • Administrative Expenditures, including
Fixed Assets | Controls |

Department of Corrections' Faribault and Shakopee Facilities

Agency Overview

The Minnesota Department of Corrections operates eight adult and two juvenile correctional facilities. Business services for the ten facilities are provided through four regional offices. One of the regional offices serves the Faribault and Shakopee facilities.

Faribault is a medium-security, level-three facility housing adult males. A level 1 and 2 minimum-security unit is also located outside the secure perimeter. The Shakopee facility houses adult women offenders and includes all custody levels.

Offenders in state facilities have access to a variety of work, education, and other program activities. The correctional industries program, MINNCOR, provides offenders with work skills that could transfer to productive employment after release. The department provides educational programs at all of the facilities.

The Department of Corrections received the majority of its funding for operations from the state's General Fund. In fiscal year 2008, General Fund appropriations financed 85 percent of the department's total expenditures. The department allocated state appropriations to the correctional facilities based on various factors, including prior year allocation, proposed spending plans, and offender population estimates. In fiscal year 2008, the Faribault facility received \$30,585,680 and the Shakopee facility received \$14,070,000.

Table 1 summarizes the department's revenues for the Faribault and Shakopee facilities for fiscal year 2008.

Table 1		
Revenues		
Fiscal Year 2008¹		
Revenues	MCF-Faribault	MCF-Shakopee
Inmate Job Assignments	\$1,845,760	\$ 450,492
Inmate Deposits	1,587,829	833,665
Telephone Commissions	239,098	98,634
Faribault AC Blind Shared Services	217,769	0
Inmate Confinement – Outside Source	213,144	84,617
Other ²	113,553	18,848
Total	<u>\$4,217,153</u>	<u>\$1,486,256</u>

¹The state's fiscal year is July 1 through June 30.

²Other revenues consist of the Faribault vocational work project, staff/visitor meals, miscellaneous dedicated receipts, rents, interest earnings, private donations, and indirect cost revenue.

Source: Minnesota Accounting and Procurement System.

Table 2 summarizes the department's expenditures for the Faribault and Shakopee facilities for fiscal year 2008.

Table 2		
Expenditures		
Fiscal Year 2008		
Expenditures	MCF-Faribault	MCF-Shakopee
Payroll	\$22,878,140	\$11,352,715
Inmate Activity	3,980,106	1,423,085
Supplies	2,911,629	1,336,158
Space Rental, Maintenance, and Utility	2,727,234	554,497
Equipment	518,396	96,789
Communication	192,079	54,144
Repairs, Alterations, and Maintenance	125,677	60,711
Professional/Technical Contracts	99,522	50,484
Computer and System Services	41,444	8,117
Other ¹	1,205,350	418,700
Total	<u>\$34,679,577</u>	<u>\$15,355,400</u>

¹Other expenditures include printing and advertising, travel expenditures, employee development, buildings and land improvements, and other operating costs and indirect costs.

Source: Minnesota Accounting and Procurement System.

Objectives, Scope, and Methodology

Our audit of the Faribault and Shakopee correctional facilities' payroll, travel, administrative expenditures, and inmate account activities focused on the following audit objectives for the period of July 1, 2006, to March 31, 2009:

- Were the facilities' internal controls adequate to ensure that it safeguarded inmate receipts and other assets, accurately paid employees and vendors in accordance with management's authorization, produced reliable financial information, and complied with finance-related legal requirements?
- For the items tested, did the facilities comply with significant finance-related legal requirements over employee payroll and travel expenditures, selected administrative expenditures, and offender accounts, including state laws, regulations, contracts, and applicable policies and procedures?

To answer these questions, we gained an understanding of the facilities' financial policies and procedures. We considered the risk of errors in the accounting records and noncompliance with relevant legal requirements. We analyzed accounting data to identify unusual trends or significant changes in financial operations. We examined samples of transactions and evidence supporting the agency's internal controls and compliance with laws, regulations, policies, and contracts.

We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives.

We used various criteria to evaluate internal control and compliance. We used as our criteria to evaluate agency controls the guidance contained in the *Internal Control-Integrated Framework*, published by the Committee of Sponsoring Organizations of the Treadway Commission.¹ We used state and federal laws, regulations, and contracts, as well as policies and procedures established by the departments of Management and Budget and Administration and the agency's internal policies and procedures as evaluation criteria over compliance.²

¹ The Treadway Commission and its Committee of Sponsoring Organizations were established in 1985 by the major national associations of accountants. One of their primary tasks was to identify the components of internal control that organizations should have in place to prevent inappropriate financial activity. The resulting *Internal Control-Integrated Framework* is the accepted accounting and auditing standard for internal control design and assessment.

² The Department of Management and Budget consists of the former departments of Finance and Employee Relations.

Conclusions

For the areas audited, the Faribault and Shakopee correctional facilities generally had adequate internal controls to ensure that they safeguarded assets, produced reliable financial information, and complied with finance-related legal requirements. However, the facilities need to improve documentation of overtime authorizations.

For the items tested, the Faribault and Shakopee correctional facilities complied with significant finance-related legal requirements over its financial activities.

The following *Finding and Recommendations* further explain the exception noted above.

Finding and Recommendations

Finding 1

The Faribault and Shakopee correctional facilities did not retain documentation to support management's prior authorization for employee overtime.

The facilities did not retain prior authorizations for employee overtime requests and advanced approvals in compliance with state policy. Facilities' staff stated that they maintained the advanced approval documentation for 30 days, as required by the Department of Corrections' policy.³ However, state policy required state agencies to keep documentation supporting the special circumstances for overtime and management's advanced approval for the current fiscal year and the three preceding fiscal years.⁴ Without documentation to support that management had authorized overtime, there is an increased risk that the department could incur unnecessary overtime costs.

For fiscal years 2007 through March of 2009, the two correctional facilities paid employees about \$2.5 million in overtime payments. Overtime costs increased during the audit period due to construction projects that required additional security. Table 3 details these costs by facility and fiscal year.

Table 3
Overtime Costs by Fiscal Year

<u>Facility</u>	<u>2007</u>	<u>2008</u>	<u>2009¹</u>
Shakopee	\$409,912	\$ 511,694	\$333,812
Faribault	<u>352,890</u>	<u>551,050</u>	<u>358,841</u>
Total	<u>\$762,802</u>	<u>\$1,062,744</u>	<u>\$692,653</u>

¹Fiscal year 2009 amounts are through March 31, 2009.

Source: Minnesota Accounting and Procurement System.

Our review of employee overtime costs did not indicate any inappropriate or unreasonable amounts. In addition, business office staff regularly monitored overtime paid to employees.

³ Department of Corrections' policy 104.450.

⁴ Department of Management and Budget's policy PAY0012.

Recommendations

- *The facilities should maintain documentation of advance approval for overtime payments in accordance with state policy.*
 - *The Department of Corrections should review and modify its policy on leave and overtime requests to comply with state policy.*
-



OFFICE OF THE COMMISSIONER
Contributing to a Safer Minnesota

August 4, 2009

James R. Nobles
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 review and respond to the finding and recommendations reported as a result of the recent audit of the Minnesota Department of Corrections (DOC) facilities at Faribault and Shakopee for the period July 1, 2006 through March 31, 2009. The DOC takes its fiscal responsibilities seriously. We very much appreciate the professional and thorough review made by your office while conducting this internal control and compliance audit. Below please find our response for the finding identified in the audit report.

Finding 1: The Faribault and Shakopee correctional facilities did not retain documentation to support management's prior authorization for employee overtime.

Recommendations

- *The facilities should maintain documentation of advance approval for overtime payments in accordance with state policy.*
- *The Department of Corrections should review and modify its policy on leave and overtime requests to comply with state policy.*

Response

The DOC agrees with this finding and will comply with the recommendations made.

The department places a high emphasis on compliance with state policies and procedures. The policy for leave and overtime requests was modified in 2003 as part of the conversion to electronic time reporting and complied with the state's procedure for requesting and reporting leave. Because leave and overtime requests were previously documented and approved on the same form, we were unaware of a separate procedure for requesting and reporting overtime.



www.doc.state.mn.us

1450 Energy Park Drive, Suite 200 St. Paul, Minnesota 55108 PH 651.361.7226 FAX 651.642.0414 TTY 800.627.3529

EQUAL OPPORTUNITY EMPLOYER

The department will immediately modify its policy to comply with the state policy, and will maintain documentation of advance approval for overtime as required. However, in our continued effort to maximize the use of technology and reduce the retention of paper documents, we will also contact the Minnesota Management and Budget agency to determine if a more practical and efficient control procedure can be developed and implemented.

Person Responsible:

Lori Caspers, Financial Management Director

Estimated Completion Date:

September 30, 2009

Thank you again for the opportunity to respond, and for the efforts of your staff. It is our intent to resolve this finding immediately.

Sincerely,



Joan Fabian, Commissioner