



FINANCIAL AUDIT DIVISION REPORT

**Department of Corrections'
Willow River/Moose Lake,
Rush City, and Togo Facilities**

Internal Control and Compliance Audit

July 1, 2007, through January 31, 2010

August 19, 2010

Report 10-27

FINANCIAL AUDIT DIVISION

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OFFICE OF THE LEGISLATIVE AUDITOR

State of Minnesota • James Nobles, Legislative Auditor

August 19, 2010

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Minnesota Correctional Facility – Rush City

Mr. David Hegg, Warden
Minnesota Correctional Facility – Togo

This report presents the results of our internal control and compliance audit of the Department of Corrections' facilities at Willow River/Moose Lake, Rush City, and Togo for the period July 1, 2007, through January 31, 2010.

We discussed the results of the audit with the Department of Corrections and the facilities' staff on August 5, 2010. This audit was conducted by David Poliseno, CPA, CISA, CFE (Audit Manager) and Susan Kachelmeyer, CPA, CISA (Auditor-in-Charge), assisted by auditors Kevin Schoenrock, Blake Schwagel, and Sadie Huber.

This report is intended for the information and use of the Legislative Audit Commission and the management of the Department of Corrections' facilities at Willow River/Moose Lake, Rush City, and Togo. This restriction is not intended to limit the distribution of this report, which was released as a public document on August 19, 2010.

We received the full cooperation of the Department of Corrections' facilities at Willow River/Moose Lake, Rush City, and Togo staff while performing this audit.

James R. Nobles
Legislative Auditor

Cecile M. Ferkul, CPA, CISA
Deputy Legislative Auditor

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Report Summary

Conclusion

The Minnesota Department of Corrections' regional business office for the correctional facilities at Willow River/Moose Lake, Rush City, and Togo generally had adequate internal controls to ensure it safeguarded assets, accurately paid employees or vendors in accordance with management's authorizations, produced reliable financial information, and complied with finance-related legal requirements. For the items tested, the facilities generally complied with most finance-related legal requirements. However, the regional business office had some internal control deficiencies and significant noncompliance in some specific areas.

Key Findings

- Regional business office staff inappropriately used \$5,880 from the Correctional Inmates Fund to pay for some facility operational expenditures. ([Finding 1, page 7](#))
- Regional business office staff incorrectly processed a payment, which resulted in the Togo facility holding significantly more cash locally than was authorized. ([Finding 2, page 8](#))
- Regional business office staff did not adequately protect not public data on individuals. ([Finding 3, page 8](#))
- The regional business office did not adequately restrict or monitor employee access to the state's accounting system. ([Finding 4, page 9](#))
- The Togo facility staff authorized payments to wilderness instructors in the Trek Endeavors Program before the instructors completed their work. ([Finding 5, page 10](#))
- The regional business office did not properly manage the Togo facility's outstanding receivables. ([Finding 6, page 11](#))

Audit Objectives and Scope

Objectives

- Internal Controls
- Legal Compliance

Period Audited

July 1, 2007, through January 31, 2010

Programs Audited

- | | |
|--|--|
| • Employee payroll expenditures | • Selected administrative expenditures |
| • Safeguarding and accounting for inmates personal funds | • Selected Togo program revenue |
| | • Travel expenditures |

Department of Corrections' Willow River/Moose Lake, Rush City, and Togo 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 business offices serves the Willow River/Moose Lake, Rush City, and Togo facilities. The regional business office operated primarily out of the Moose Lake facility with a staff of 12 and performed most of the region's accounting functions. In addition, three regional business office staff worked out of the Rush City facility and processed that facility's payroll, employee business expenses, and inmate account activity.

Willow River operates a boot camp for nondangerous male offenders called the Challenge Incarceration Program. Moose Lake is a medium-security institution that houses adult males. Rush City is a close-custody facility (a security classification one step higher than medium, but below maximum) currently housing over 900 offenders. Togo is an alternative residential program for boys and girls available for use on a per diem basis by all Minnesota juvenile county courts to provide courts and social service agencies; it averages a daily population of 41. Togo also operates the state's Challenge Incarceration Program for nondangerous female offenders.

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 2009, General Fund appropriations financed 86 percent of the department's total expenditures. The department allocated state appropriations to the correctional facilities based on various factors, including the prior year's allocation, proposed spending plans, and offender population estimates. In fiscal year 2009, the Willow River facility received \$3.975 million, the Moose Lake facility received \$25.096 million, the Rush City facility received \$24.385 million, and the Togo facility received \$1.145 million for the Challenge Incarceration Program and \$23,000 for its juvenile programs.

Table 1 summarizes the department's revenues for the Willow River/Moose Lake, Rush City, and Togo facilities for fiscal year 2009.

Table 1
Revenues
July 1, 2008, through June 30, 2009

<u>Revenues</u>	<u>Willow River</u>	<u>Moose Lake</u>	<u>Rush City</u>	<u>Togo</u>
Juvenile program fees	\$ 0	\$ 0	\$ 0	\$4,119,468
Interagency agreement ¹	0	1,359,294	0	0
Inmates' deposits of personal funds	0	1,008,790 ²	1,136,167	58,141
Inmate payments for cost of confinement	5,296	834,270	1,127,409	37,647
Telephone Commissions	2,544	153,711	172,138	1,359
Other ³	3,844	55,676	32,188	59,474
Total	<u>\$11,684</u>	<u>\$3,411,741</u>	<u>\$2,467,902</u>	<u>\$4,276,089</u>

¹The Department of Corrections has an interagency agreement with the Department of Human Services for the Minnesota Sex Offenders Program at the Moose Lake facility.

²Includes inmate deposits for Willow River.

³Other revenues consist of the Rush City vocational work project, staff/visitor meals, miscellaneous dedicated receipts, rents, interest earnings, private donations, resale items, and indirect cost revenue.

Source: Minnesota Accounting and Procurement System.

Table 2 summarizes the department's expenditures for Willow River/Moose Lake, Rush City, and Togo facilities for fiscal year 2009.

Table 2
Expenditures
July 1, 2008, through June 30, 2009

<u>Expenditures</u>	<u>Willow River</u>	<u>Moose Lake</u>	<u>Rush City</u>	<u>Togo</u>
Payroll	\$2,644,058	\$19,952,703	\$18,536,229	\$4,154,993
Supplies	411,861	2,707,857	2,305,761	413,376
Inmates' use of personal funds	93,862	2,081,210	2,310,692	104,083
Space Rental, Maintenance, Utility, and Repairs	274,572	1,660,602	1,766,958	99,978
Equipment	327,374	1,035,735	532,053	46,134
Other Operating Costs ¹	203,550	676,900	675,493	45,696
Communication, Computer, and System Services	41,071	288,998	460,111	33,976
Professional Technical Contracts	9,730	40,129	40,904	267,253
Other ²	59,195	166,394	142,008	235,842
Total	<u>\$4,065,273</u>	<u>\$28,610,528</u>	<u>\$26,770,209</u>	<u>\$5,400,436</u>

¹The majority of other operating costs at Willow River/Moose Lake, and Rush City were for food service management.

²Other expenditures include printing and advertising, travel expenditures, employee development, buildings, land improvements, and indirect costs.

Source: Minnesota Accounting and Procurement System, as adjusted by the auditors to correct the errors made by the regional business office that are discussed in Finding 7.

Objectives, Scope, and Methodology

Our audit of the Willow River/Moose Lake, Rush City, and Togo correctional facilities' payroll, travel, administrative expenditures, Togo program revenue, and the safeguarding and accounting for inmates' personal funds¹ focused on the following audit objectives for the period of July 1, 2007, to January 31, 2010:

- Did the regional business office have adequate internal controls to ensure that it safeguarded receipts and other assets, accurately paid employees and vendors in accordance with management's authorizations, created reliable financial information, and complied with finance-related legal requirements?
- For the items tested, did the regional business office comply with significant finance-related legal requirements over the facilities' financial activities, including state and federal laws, regulations, contracts, and applicable policies and procedures?

To meet the audit objectives, we gained an understanding of the Department of Corrections' and the regional business office's financial policies and procedures. We considered the risk of errors in the accounting records and potential noncompliance with relevant legal requirements. We analyzed accounting data to identify unusual trends or significant changes in financial operations. In addition, we selected a sample of financial transactions and reviewed supporting documentation to test whether the controls were effective and if the transactions complied with laws, regulations, policies, and grant and contract provisions.

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.² 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 Department

¹ In addition to its responsibility to safeguard and account for the personal funds of inmates in the region's facilities, the regional business office processes receipts of inmates' personal funds for all of the state's correctional facilities.

² 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.

of Corrections' and the regional business office's policies and procedures as evaluation criteria over compliance.

Conclusion

The Minnesota Department of Corrections' regional business office for the correctional facilities at Willow River/Moose Lake, Rush City, and Togo generally had adequate internal controls to ensure it safeguarded assets, accurately paid employees or vendors in accordance with management's authorizations, produced reliable financial information, and complied with finance-related legal requirements. For the items tested, the regional business office generally complied with most finance-related legal requirements. However, the regional business office had some internal control deficiencies and significant noncompliance in some specific areas.

The following *Findings and Recommendations* provide further explanation about the weaknesses noted above.

Findings and Recommendations

Finding 1

Regional business office staff inappropriately used \$5,880 from the Correctional Inmates Fund to pay for some facility operational expenditures.

In July and August 2009, regional business office staff used \$5,880 from the Correctional Inmates Fund³ to pay for expenses related to the Togo facility's Trek Endeavors Program. They told us that they used the fund to make two contract payments to a wilderness instructor after attempts to properly process the payments failed due to insufficient funds in the program's account.⁴ They repaid the Correctional Inmates Fund in September 2009 by changing the payments' funding sources to the Trek Endeavors Program's account. The regional business office staff did not consult or inform the department's central office about these transactions.

Had the central office effectively monitored facilities' Correctional Inmates Fund transactions in the state's accounting system, it could have identified and questioned regional business office staff about these transactions; the accounting records included sufficient information to flag the transactions as potentially inappropriate.

According to state statutes, the Department of Corrections has a fiduciary responsibility to safeguard funds on behalf of the inmates.⁵ Use of the Correctional Inmates Fund for operational costs is a serious violation of the statutes. The regional business office staff's actions showed either an unacceptable lack of knowledge about statutes and policies restricting the uses of this fund or an unacceptable lack of judgment.

Recommendations

- *The Department of Corrections should determine whether training and/or disciplinary action is necessary for regional business office staff that authorized and/or processed the transactions that used the Correctional Inmates Fund for operational expenses.*

³ The Correctional Inmates Fund accounts for inmates' personal money, interest earnings on that money, and other resources held by the department in a fiduciary capacity for the sole benefit of the inmates.

⁴ The state's accounting system will not allow a payment to be processed if an account does not have sufficient funds available.

⁵ *Minnesota Statutes* 2009, 241.08.

- *The Department of Corrections should ensure that all personnel with access to the Correctional Inmates Fund know the statutory restrictions and department policies on appropriate uses of this fund.*
- *The Department of Corrections should monitor inmate account transactions and investigate any transactions that indicate a possible misuse of the Correctional Inmates Fund.*

Finding 2

Regional business office staff incorrectly processed a payment, which resulted in the Togo facility holding significantly more cash locally than was authorized.

In September 2009, regional business office staff erroneously processed a payment to the Togo Facility's local bank account that should have been paid to the Willow River/Moose Lake facility's account. As a result, the Togo facility held as much as \$19,267 more cash locally than the \$15,000 authorized by the Department of Management and Budget. Rather than correct the error, regional business office staff inappropriately decided to spend down the overage. As of the end of January 2010, the Togo account exceeded the authorized amount by about \$4,000.

State statutes and policies require approval from the commissioner of the Department of Management and Budget to establish and limit the amount of agencies' funds held locally.⁶ Limiting the amount of funds held locally helps the state minimize the amount of cash that is at a higher risk of loss or theft and maximize the amount of cash that gets invested.

Recommendations

- *The Department of Corrections should monitor local bank account balances to ensure that facilities limit locally held funds to the amounts authorized by the Department of Management and Budget.*
- *The Department of Corrections should work with the Department of Management and Budget to resolve the overage in its Togo facility's imprest cash account.*

⁶ Minnesota Statutes 2009, 15.191.

Regional business office staff did not adequately protect not public data on individuals.**Finding 3**

Regional business office staff sometimes recorded the names of juveniles participating in the Togo facility's programs in unprotected fields in the state's accounting system, inadvertently making the data available to state employees and contractors with access to detailed information in certain tables in the state's information warehouse. Not public data includes any government data that is classified by statute, federal law, or temporary classification as confidential, private, nonpublic, or protected nonpublic.⁷ *Minnesota Statutes* classify data on juvenile offenders and recipients of public assistance as not public.⁸

State policy categorizes accounting system data as public and specifically instructs state agencies that names and certain information on individuals should not be included.⁹

Recommendations

- *Regional business office staff should not record juvenile names or other not public data in unprotected fields in the state's accounting system.*
- *The Department of Corrections should work with the Department of Management and Budget to remove not public data in the state's information warehouse and protect not public data included in the state's accounting system.*

The regional business office did not adequately restrict or monitor employee access to the state's accounting system.**Finding 4**

The regional business office allowed six employees unnecessary access to add, modify, and delete accounts receivable data in the state's accounting system; two of the employees could also modify data related to uncollectible receivables. The facilities had not designed mitigating controls to ensure that only authorized changes occurred.

Segregation of incompatible duties is a fundamental internal control designed to prevent or promptly detect errors or irregularities from being processed in the accounting system.¹⁰ State policy requires that agencies limit system access to

⁷*Minnesota Statutes* 2009, 13.02.

⁸*Minnesota Statutes* 2009, 299C.095, 13.02, and 13.46.

⁹Department of Management and Budget Policy Number 0803-01.

¹⁰Department of Management and Budget Policy Number 0102-01.

only those duties essential to a position's responsibilities.¹¹ If it is not feasible to segregate incompatible duties, the Department of Management and Budget requires agencies to develop and document their controls designed to mitigate the risk that errors or fraud will not be detected.¹² These controls typically include some analysis and review of transactions processed by the employees with inappropriate access.

Recommendations

- *The regional business office should eliminate incompatible employee access to the state's accounting system or develop, document, and monitor mitigating controls that provide independent scrutiny and review of the activity processed by those employees.*
- *The regional business office should periodically review employees' security profiles to ensure that access is limited to the needs of assigned job responsibilities.*

Finding 5

The Togo facility staff authorized payments to wilderness instructors in the Trek Endeavors Program before the instructors completed their work.

Togo facility staff prepared documentation about wilderness instructors' performance and authorized payments before the instructors completed their assignments. The Togo facility hired the wilderness instructors to supervise and educate juveniles during three-week wilderness trips. Togo facility staff assumed that the wilderness instructors' work would be satisfactory and prepared documentation up to a week prior to the end of the assignment. They seemed to time their documentation and authorizations so that the wilderness instructors would receive payment for their services on the last day of the trip. Togo facility staff forwarded the documentation and payment authorizations to the regional business office where staff entered the payments into the accounting system. Contracts we tested for Togo's wilderness instructor services, ranged from \$1,500 to \$30,240.

Various state statutes,¹³ state policies,¹⁴ and the department's policy¹⁵ prohibit payment before the completion of the services to ensure that the state receives satisfactory performance.

¹¹Department of Management and Budget Policy Number 1101-07.

¹²Department of Management and Budget Policy Number 1101-07.

¹³ *Minnesota Statutes* 2009, 3.225, subd. 6(b); *Minnesota Statutes* 2009, 16C.08, subd. 5(b).

¹⁴Department of Administration - Professional/Technical Services Contract Manual; Department of Management and Budget Policy 0803-1 - Payment Requests, Preparation, and Approval.

¹⁵ Department of Corrections Policy 106.030 - Processing Contracts and Other Agreements.

Recommendation

- *The regional business office should only pay the Togo facility's contracted wilderness instructors based on documentation and authorization submitted after satisfactory completion of the work.*

The regional business office did not properly manage the Togo facility's outstanding receivables.**Finding 6**

As of April 2010, regional business office records identified about \$250,600 in receivables related to services provided at the Togo facility from May 2008 through June 2009. Nearly \$200,000 of the outstanding balance resulted from nonpayment for some juvenile chemical dependency treatment. Although the department has a joint powers agreement with the counties (through Itasca County, the "host county") that stipulates that the counties will pay Togo for these services, disputes have arisen about the entity that has financial responsibility for the person who received treatment. The steps taken by the regional business office staff have not been effective in resolving the disputes.

Recommendation

- *The Department of Corrections should work with the applicable counties to resolve the billing and payment issues for the outstanding consolidated chemical dependency treatment program services provided by the Togo facility.*

The regional business office did not accurately record certain transactions in the state's accounting system.**Finding 7**

Regional business office staff did not always use the correct object code or record date when paying vendors through the state's accounting system, as required by state policy.¹⁶ They incorrectly coded the following transactions in the state's accounting system:

- From July 2008 through January 2010, regional business office staff in Rush City used an incorrect object code when it recorded about \$1,626,000 of inmate account expenditures in the state's accounting system. They coded the transactions as either "State Agency Other Services" or "Interagency" instead of "Student/Patient/Inmate Activity."

¹⁶ Department of Management and Budget Policy 0803-01.

- Regional business office staff incorrectly coded two of nine payments for lodging we tested; one was an equipment rental for \$2,800, and the other was a membership for \$1,000.
- Regional business office staff did not correctly record the date in the state's accounting system that the state incurred a liability for 31 out of 43 professional/technical contracts, lodging supply and equipment transactions we tested. The incorrect record dates ranged from 1 to 60 days from the actual date of liability. State policy states that the date of the state's liability is usually when the agency received the goods or services.¹⁷ Correctly recording the date of liability is especially important for determining year-end liabilities in the state's financial statements.

Recommendations

- *Regional business office staff should correctly record all financial activity in the state's accounting system.*
- *The regional business office should monitor activity posted to the accounting system to detect and resolve significant errors, such as the \$1.6 million miscoding.*

Finding 8

The regional business office paid some vendors without evidence of receipt of the goods or services and/or without proper authorization to pay.

The regional business office did not always ensure that it had received the goods or services before it paid vendors and sometimes paid vendors without proper payment authorization. State policy requires business office staff to match the invoice to the purchase order and receiving document before allowing payment to ensure that they only pay for goods and services that have been authorized and received.¹⁸ State policy also requires management or its designee to approve every invoice prior to processing.¹⁹

The 26 payments we tested had the following weaknesses:

- Regional business office staff paid 11 invoices without adequate evidence of management's or its authorized designee's approval. In eight of those cases, the accounts payable clerk approved the invoice for payment based

¹⁷ Department of Management and Budget Policy 0901-01.

¹⁸ Department of Management and Budget Policy 0803-05 - Three Way Match Requirement for All Procurement Component Payments.

¹⁹ Department of Management and Budget Policy 0803-01 - Payment Requests, Preparation, and Approval.

on receiving documents. However, the clerk did not have formal delegated authority to approve the payment.

- Regional business office staff paid three invoices, totaling \$63,452, without evidence of the receipt of the goods or services; staff did not always match the invoice to the purchase order and/or receiving document before payment.

Recommendation

- *The regional business office should ensure that it only pays invoices that have been reviewed and properly approved for payment and have evidence of the receipt of the goods and services in compliance with applicable state policies.*

Department of Corrections and regional human resources staff erroneously calculated pay rate increases for two employees who were working out of class.²⁰

Finding 9

The department and regional human resources staff erroneously compensated two employees for an extra step each while working out of class. The regional human resources staff authorized a three-step salary increase for two employees whose bargaining agreement only allowed a two-step increase for working out of class. The Department of Corrections' central office entered the transactions into the personnel system without reviewing and verifying its accuracy. After we notified the regional office of the pay rate error, it initiated a repayment arrangement with the employees to recover about \$1,800 of incorrect wages paid.

Recommendation

- *The Department of Corrections' central office staff should implement controls to independently verify pay rate changes entered into the personnel system to ensure compliance with bargaining unit agreements and management authorization.*

Moose Lake regional business office staff did not always record late expense reimbursements as taxable income.

Finding 10

The Regional business office staff told us they often used the last date on a travel reimbursement request as the date of the expense claim instead of separating each

²⁰ Working out of class occurs when an employee performs the duties and responsibilities of a different classification on a temporary basis.

trip on the request, as required by state policy.²¹ Our analysis of the employee travel expense reimbursements processed by regional business office staff at Moose Lake for the period from July 2007 through January 2010 showed few instances of reimbursements of employee travel expenses being identified as taxable. Our testing of a sample of 16 of employee expense reimbursements²² processed through the Moose Lake business office identified \$465 on one employee's expense reimbursement that was not taxed, because business office staff did not properly identify the dates of travel. The employee submitted the request for reimbursement of the \$465 expense more than 60 days after they incurred the expense, but Moose Lake regional business office staff entered a more recent date in the state's payroll system.

Federal law and state policy requires the department to consider employee reimbursement claims to be taxable if the expenses submitted for reimbursement are more than 60 days old.²³ The state's payroll system determines the tax status of the reimbursements based on certain dates entered into the system and withholds employee and employer taxes on claims identified as taxable. By not recording the actual dates of each trip on the state's payroll system, it cannot properly identify the travel expenses that should be reported as taxable income.

Recommendations

- *Regional business office staff at Moose Lake should accurately input business expense reimbursement data so that the payroll system properly flags taxable reimbursements.*
- *Regional business office staff at Moose Lake should review past business expense reimbursements to identify other instances of noncompliance with federal and state requirements to tax certain employee expense reimbursements.*
- *The Department of Corrections should work with the Department of Management and Budget to correct the \$465 error identified in this report and other errors identified by Moose Lake regional business office staff's review of past employee expense reimbursements.*

²¹ Internal Revenue Service Publication 15, Circular E, effective July 1, 2005, and Department of Management and Budget Policy PAY0021.

²² This sample was not limited to reimbursements processed by business office staff at Moose Lake and included some transactions processed by business office staff at Rush City.

²³ Internal Revenue Service Publication 15, Circular E, effective July 1, 2005, and Department of Management and Budget Policy PAY0021.



CENTRAL OFFICE

Contributing to a Safer Minnesota

August 9, 2010

James R. Nobles
Office of the Legislative Auditor
Room 140 Centennial Building
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Dear Mr. Nobles,

Thank you for the opportunity to review and respond to the findings and recommendations reported as a result of the recent audit of the Minnesota Department of Corrections' facilities at Moose Lake/Willow River, Rush City and Togo for the period July 1, 2007, through January 31, 2010. 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 each finding identified in the audit report.

Finding 1: Regional business office staff inappropriately used \$5,880 from the Correctional Inmates Fund to pay for some facility operational expenditures.

Recommendations

- The Department of Corrections should determine whether training and/or disciplinary action is necessary for regional business office staff that authorized and/or processed the transactions that used the Correctional Inmates Fund for operational expenses.*
- The Department of Corrections should ensure that all personnel with access to the Correctional Inmates Fund know the statutory restrictions and department policies on appropriate uses of this fund.*
- The Department of Corrections should monitor inmate account transactions and investigate any transactions that indicate a possible misuse of the Correctional Inmates Fund.*



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Response

The Department of Corrections agrees with these recommendations. Although the services provided by the contractor are recreational in nature, and benefit inmates participating in the Trek Endeavors Program, we recognize the payments made were a program cost and regional business office staff exercised poor judgment in funding this activity from the Correctional Inmates Fund. The department will thoroughly review the circumstances, provide training to the staff that authorized the payments, and proceed with any additional action we deem appropriate.

The department maintains a facility account structure guideline document that has been incorporated into department policies. The document identifies the appropriate use of all budget activities, including accounts within the Correctional Inmates Fund. All business office staff with access this fund will be required to review the document and complete an acknowledgement of understanding of its appropriate uses. Procedures to monitor inmate account transactions will be reviewed and strengthened, and transactions that indicate a possible misuse of inmate funds will be investigated.

Person Responsible:

Lori Caspers, Financial Management Director

Estimated Completion Date:

September 30, 2010

Finding 2: Regional business office staff incorrectly processed a payment, which resulted in the Togo facility holding significantly more cash locally than was authorized.

Recommendations

- *The Department of Corrections should monitor local bank account balances to ensure that facilities limit locally held funds to the amounts authorized by the Department of Management and Budget.*
- *The Department of Corrections should work with the Department of Management and Budget to resolve the overage in its Togo facility's imprest cash account.*

Response

The Department of Corrections agrees with these recommendations. A procedure will be developed and implemented to monitor local bank account balances from a central location and ensure they remain at or below the amounts authorized. The overage in the Togo facility's imprest cash account was resolved in March 2010.

Person Responsible:

Lori Caspers, Financial Management Director

Estimated Completion Date:

September 30, 2010

Finding 3: Regional business office staff did not adequately protect not public data on individuals.

Recommendations

- *Regional business office staff should not record juvenile names or other not public data in unprotected fields in the state's accounting system.*
- *The Department of Corrections should work with the Department of Management and Budget to remove not public data in the state's information warehouse and protect not public data included in the state's accounting system.*

Response

The Department of Corrections agrees with these recommendations. The inclusion of juvenile names and other not public data in unprotected fields in the state's accounting system has been discontinued. Procedures will be implemented to ensure all not public data is provided separately, and accompanied by a disclosure regarding the confidentiality of the data. We will work with the Department of Management and Budget to remove or protect previously entered not public data.

Person Responsible:

Lori Caspers, Financial Management Director

Estimated Completion Date:

December 31, 2010

Finding 4: The regional business office did not adequately restrict or monitor employee access to the state's accounting system.

Recommendations

- *The regional business office should eliminate incompatible employee access to the state's accounting system or develop, document, and monitor mitigating controls that provide independent scrutiny and review of the activity processed by those employees.*
- *The regional business office should periodically review employees' security profiles to ensure that access is limited to the needs of assigned job responsibilities.*

Response

The Department of Corrections agrees with these recommendations, and the incompatible employee access was eliminated on April 12, 2010. Mitigating controls have been established for situations where it is not feasible to segregate incompatible duties. The Department of Management and Budget distributes annual reports that contain information pertaining to employees' existing security profiles. Department of Corrections finance staff then complete a review of that information to ensure appropriate access to the state's accounting system. All new profiles will be reviewed upon creation to determine any incompatibility. Instructions will be

provided to business office staff to ensure they are maintaining appropriate security profiles and proper separation of duties.

Person Responsible:
Lori Caspers, Financial Management Director

Estimated Completion Date:
September 30, 2010

Finding 5: The Togo facility staff authorized payments to wilderness instructors in the Trek Endeavors Program before the instructors completed their work.

Recommendation

- *The regional business office should only pay the Togo facility's contracted wilderness instructors based on documentation and authorization submitted after satisfactory completion of the work.*

Response

The Department of Corrections agrees with this recommendation. The practice of preparing documentation and authorizing payment to wilderness instructors before services were complete was discontinued in April 2010. Payments are now made only after the work has been satisfactorily completed, in accordance with state statute and state and department policies.

Person Responsible:
Lori Caspers, Financial Management Director

Estimated Completion Date:
Completed

Finding 6: The regional business office did not properly manage the Togo facility's outstanding receivables.

Recommendation

- *The Department of Corrections should work with the applicable counties to resolve the billing and payment issues for the outstanding consolidated chemical dependency treatment program services provided by the Togo facility.*

Response

The Department of Corrections agrees with this recommendation. Since December 2009 the department has been working with counties and other entities to resolve the billing and payment issues for outstanding services. To date approximately one-fourth of the outstanding receivables have been collected, and efforts to maximize collections will continue. The accounts receivable process has been reviewed and additional internal controls have been established to ensure timely and accurate billing and collection. Intake paperwork requirements have been strengthened at Togo to ensure critical timelines are met. Language has been incorporated into current contracts to more clearly define county obligations and payment requirements.

Person Responsible:
Lori Caspers, Financial Management Director

Estimated Completion Date:
December 31, 2010

Finding 7: The regional business office did not accurately record certain transactions in the state's accounting system.

Recommendations

- *Regional business office staff should correctly record all financial activity in the state's accounting system.*
- *The regional business office should monitor activity posted to the accounting system to detect and resolve significant errors, such as the \$1.6 million miscoding.*

Response

The Department of Corrections agrees with these recommendations. Business office staff will be directed to review and comply with policies pertaining to the proper use of object codes and record dates. Training will be provided as necessary. All regional business offices will immediately implement procedures to periodically monitor accounting activity to detect and resolve significant errors. The FY10 inmate account expenditures identified in the report have been corrected so they are properly coded as "Student/Patient/Inmate Activity".

Person Responsible:

Lori Caspers, Financial Management Director

Estimated Completion Date:

September 30, 2010

Finding 8: The regional business office paid some vendors without evidence of receipt of the goods or services and/or without proper authorization to pay.

Recommendation

- *The regional business office should ensure that it only pays invoices that have been reviewed and properly approved for payment and have evidence of the receipt of the goods and services in compliance with applicable state policies.*

Response

The Department of Corrections agrees with this recommendation. A Department of Corrections accounts payable policy will be developed that includes formal delegation of payment approval and procedures to ensure there is evidence of an appropriate three-way-match. Staff will be directed to review and comply with the policy, and training will be provided as necessary.

Person Responsible:

Lori Caspers, Financial Management Director

Estimated Completion Date:

December 31, 2010

Finding 9: Department of Corrections and regional human resources staff erroneously calculated pay rate increases for two employees who were working out of class.

Recommendation

- *The Department of Corrections' central office staff should implement controls to independently verify pay rate changes entered into the personnel system to ensure compliance with bargaining unit agreements and management authorization.*

Response

The Department of Corrections agrees with this recommendation. As stated in the audit report, the department has taken action to recover about \$1,800 in overpayments. Pay rates are appropriately determined by human resources staff, and that unit has implemented procedures to conduct a second review that will ensure accurate pay rates are established.

Person Responsible:

Lori Kingston, Human Resources Director

Estimated Completion Date:

Completed

Finding 10: Moose Lake regional business office staff did not always record late expense reimbursements as taxable.

Recommendations

- *Regional business office staff at Moose Lake should accurately input business expense reimbursement data so that the payroll system properly flags taxable reimbursements.*
- *Regional business office staff at Moose Lake should review past business expense reimbursements to identify other instances of noncompliance with federal and state requirements to tax certain employee expense reimbursements.*
- *The Department of Corrections should work with the Department of Management and Budget to correct the \$465 error identified in this report and other errors identified by Moose Lake regional business office staff's review of past employee expense reimbursements.*

Response

The Department of Corrections agrees with these recommendations. Existing department policies are correct, and include procedures to ensure business expense data is entered in a manner in which reimbursements more than 60 days old are taxed. Staff will be directed to review and comply with the existing policy. Training will be provided as necessary.

The department's internal auditor will be tasked with reviewing past business expense reimbursements agency-wide to identify other instances of noncompliance with federal and state

tax requirements. We will consult with the Department of Management and Budget to determine how to proceed with the error that has been identified and any additional errors.

Person Responsible:

Lori Caspers, Financial Management Director

Estimated Completion Date:

December 31, 2010

Thank you again for the opportunity to respond, and for your recommendations. We value your audit work and the improvements it generates in our financial management practices.

Sincerely,

A handwritten signature in cursive script that reads "Joan Fabian".

Joan Fabian, Commissioner

Cc: David Crist, Deputy Commissioner
Lisa Cornelius, Assistant Commissioner
Chris Dodge, Agency Chief Financial Officer