

**DEPARTMENT OF HUMAN SERVICES  
FERGUS FALLS REGIONAL TREATMENT CENTER  
FINANCIAL AND COMPLIANCE AUDIT  
FOR THREE YEARS ENDED JUNE 30, 1985**

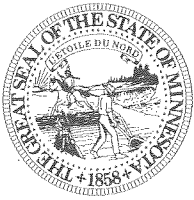
---

**MAY 1986**

---

**Financial Audit Division  
Office of the Legislative Auditor  
State of Minnesota**





STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

VETERANS SERVICE BUILDING, ST. PAUL, MN 55155 • 612/296-4708

JAMES R. NOBLES, LEGISLATIVE AUDITOR

Senator Randolph W. Peterson, Chairman  
Legislative Audit Commission

Members of the Legislative Audit Commission

Leonard W. Levine, Commissioner  
Department of Human Services

Ms. Elaine Timmer, Chief Executive Officer  
Fergus Falls Regional Treatment Center

Audit Scope

We have completed a financial and compliance audit of the Fergus Falls Regional Treatment Center for the three years ended June 30, 1985. Section I provides a brief description of the Fergus Falls Regional Treatment Center's activities and finances. Our audit was made in accordance with generally accepted auditing standards, and the standards for financial and compliance audits contained in the U.S. General Accounting Office Standards for Audit of Governmental Organizations, Programs, Activities, and Functions, and accordingly, included such audit procedures as we considered necessary in the circumstances. Field work was completed on March 7, 1986.

The objectives of the audit were to:

- study and evaluate major Fergus Falls Regional Treatment Center (FFRTC) internal control systems, including a review of receipts, payroll, fixed assets, and administrative disbursements;
- verify that financial transactions were properly recorded in the Statewide Accounting System;
- verify that financial transactions were made in accordance with applicable laws, regulations, and policies, including Minn. Stat. Chapters 246 and 252, and other finance-related laws and regulations; and
- determine the status of prior audit recommendations.

The management of FFRTC is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgements by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly.

Senator Randolph W. Peterson  
Members of the Legislative Audit Commission  
Leonard W. Levine, Commissioner  
Ms. Elaine Timmer  
Page 2

Because of inherent limitations in any system of internal accounting control, errors or irregularities may occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

The management of FFRTC is also responsible for the agency's compliance with laws and regulations. In connection with our audit, we selected and tested transactions and records from the programs administered by FFRTC. The purpose of our testing of transactions was to obtain reasonable assurance that FFRTC had, in all material respects, administered their programs in compliance with applicable laws and regulations.

#### Conclusions

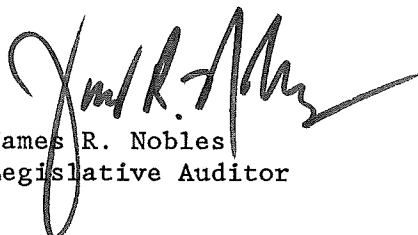
In our opinion, except for the issues raised in Recommendations 1-8, the FFRTC system of internal accounting control in effect on June 30, 1985, taken as a whole, was sufficient to provide management with reasonable, but not absolute assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly.

In our opinion, for the three years ended June 30, 1985, financial transactions were properly recorded in the Statewide Accounting System.

In our opinion, for the three years ended June 30, 1985, FFRTC administered its programs in compliance, in all material respects, with applicable finance-related laws and regulations.

Section II of this Audit Report contains the recommendations we developed during this audit. It is presented to assist you in improving accounting procedures and controls. We will be monitoring and reviewing your progress on implementing these recommendations. Section III of this report includes a summary of the progress on all recommendations developed during our fiscal year 1982 audit, dated September 6, 1983.

We would like to thank the Fergus Falls Regional Treatment Center staff for the cooperation extended to us during this audit.

  
James R. Nobles  
Legislative Auditor

  
John Asmussen, CPA  
Deputy Legislative Auditor

May 1, 1986

## FERGUS FALLS REGIONAL TREATMENT CENTER

### TABLE OF CONTENTS

	<u>Page</u>
I. INTRODUCTION	1
II. CURRENT FINDINGS AND RECOMMENDATIONS	2
III. STATUS OF PRIOR AUDIT RECOMMENDATIONS	5
AGENCY RESPONSE	8

### AUDIT PARTICIPATION

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

John Asmussen, CPA	Deputy Legislative Auditor
Renee Redmer	Audit Manager
Brad Olson, CPA	Auditor-in-Charge
Patrick Ryan	Staff Auditor
Ellen Merlin	Staff Auditor

### EXIT CONFERENCE

The findings and recommendations in this report were discussed with the following staff of the Fergus Falls Regional Treatment Center on March 7, 1986:

Elaine Timmer	Chief Executive Officer
John Bloom	Assistant Administrator
Dennis Zilmer	Business Manager
Neil Herman	Staff Training Director
Dave Aanes	Planning and Evaluation Director
Carol Hovland	Chemical Dependency Unit
Douglas Boyer	Personnel Director
Philip Megorden	MR Adult Education
Bill Klein	MHD, IPC



## FERGUS FALLS REGIONAL TREATMENT CENTER

### I. INTRODUCTION

Fergus Falls Regional Treatment Center (FFRTC) is a multipurpose institution which serves individuals with problems caused by mental illness (MI), chemical dependency (CD), or mental retardation (MR). FFRTC serves a 17 county area in northwestern Minnesota. The center is under the general management of the Commissioner of Human Services and the immediate supervision of a Chief Executive Officer, Elaine Timmer, appointed by the Commissioner. During fiscal year 1985, FFRTC had an average resident population of 470, of which 104 were MI, 144 were CD, and 222 were MR. Six hundred and twenty-three staff are employed who administer the general operations and various programs at the center.

FFRTC is financed mainly by General Fund appropriations made directly to the Department of Human Services (DHS). DHS is responsible for maintaining, controlling, and transferring the necessary funds to the appropriate center accounts. During fiscal year 1985, FFRTC had General Fund expenditures of \$17,953,765. Salaries accounted for 90 percent of those expenditures, repairs and betterments 7 percent, with the remainder being miscellaneous expenditures.

The average annual cost per capita has risen from \$21,281 in 1980 to \$38,175 in 1985, approximately an 80 percent increase. This change is mainly due to an increase in salary expenditures and a decrease in patient population.

FFRTC safeguards approximately \$300,000 of resident money as prescribed by Minnesota Statutes. These funds consist of wages, donations, and personal needs allowances. The Evaluation and Training Center (ETC) at FFRTC provides pre-vocational training to MR residents. Approximately \$15,000 was collected in 1985 from the sale of goods manufactured by the residents in the ETC program.

## FERGUS FALLS REGIONAL TREATMENT CENTER

### II. CURRENT FINDINGS AND RECOMMENDATIONS

PRIOR RECOMMENDATION PARTIALLY IMPLEMENTED: There is an inadequate separation of duties in the imprest cash area.

The Fergus Falls Regional Treatment Center (FFRTC) maintains four checking accounts at a local bank. Two of these accounts, Resident Pay and Current Expense are primarily administered by one individual. This individual is the custodian of the funds, prepares deposits, prepares the checks, has authority to cosign the checks, and completes the bank reconciliations.

Effective internal controls require that the reconciliation of checking accounts be performed or checked by a person independent of the disbursement or cash receipt functions. This provides an independent verification and ensures that any errors or irregularities are detected and resolved on a timely basis.

#### *RECOMMENDATION:*

- 1. The reconciliation of the checking accounts should be completed or checked by a person independent of the cash receipt and disbursement duties associated with the accounts.*

PRIOR RECOMMENDATIONS PARTIALLY IMPLEMENTED: Controls over the Evaluation and Training Center receipts and inventories need to be strengthened.

The Evaluation and Training Center (ETC) provides pre-vocational training to mentally retarded residents of the facility. The center is intended not only to teach the residents skills, but also to aid in the resident's development under the individual's treatment program. Resident's work in an assemblylike environment, making lightweight wooden furniture such as folding chairs and tables.

Presently, sales of the furniture produced by residents take place in two areas, in the lobby by the receptionist and in the woodshop. All sales in the woodshop are made by one employee who is also responsible for the collecting of cash and the recording of receipts. The collecting of cash and the recording of sales transactions in the woodshop are incompatible functions which should be separated because an individual could keep cash that was collected from a sale without detection if the sale was not recorded. Controls would be enhanced if orders and sales invoices were prepared in the shop and the sales invoices taken to the resident bank for payment. After the payment has been received by the resident bank, goods could be picked up in the shop area by presenting the validated sales invoice, acknowledging payment for the goods.

Inventory records of raw materials and finished goods for the ETC have been maintained on a perpetual basis by one employee. This employee also performs the physical count of these inventories. To assure control over the accuracy of the inventory records, periodic physical inventory counts



## FERGUS FALLS REGIONAL TREATMENT CENTER

of raw materials and finished goods should be performed by an independent employee who does not have access to the inventory records. The results of the physical counts should be promptly reconciled to the perpetual records; and any discrepancies investigated and resolved. This periodic independent physical count and reconciliation would ensure that any errors or irregularities in the inventories or inventory records are discovered and resolved on a timely basis.

### *RECOMMENDATIONS:*

2. *Cash from the sale of furniture should be collected by an employee independent of the sales function.*
3. *Physical counts of raw materials and finished goods should be taken by an independent employee having no access to inventory records and the results compared to the perpetual inventory records.*

### Controls over certain consumable inventories need to be improved.

The dietary staff at FFRTC prepare weekly menus showing the various items to be served. A copy of the menu is then given to the meat custodian who determines the quantity of meat that will be needed. A physical inventory is then conducted and the type and amount of meat on hand is recorded. Based on this information, the custodian prepares a weekly meat order. Records are kept showing the amount of meat used. However, meat purchases are not recorded in the inventory records and a continuous balance is not maintained. Thus, the amount of meat inventory that should be on hand at any point in time is not known. The absence of effective perpetual inventory records weakens the control over the meat inventory and could result in uncontrolled or unauthorized usage.

Perpetual inventory records provide increased control over items that are continuously being used and replenished. The inventory records identify quantities in stock at any point in time. These quantities should be periodically verified to the physical inventory. If the physical count differs from the inventory records, the discrepancy should be investigated.

FFRTC maintains a dry good food storeroom located near the kitchen area. We observed that access to the food storage area was not adequately secured. The store room is adjacent to a receiving dock and an outside door, making pilferage a greater possibility. Installation of a locked door on the dry goods food storeroom would provide assurance that there is no unauthorized access to the dry goods. Physical security over consumable inventories is an essential element of internal control.

### *RECOMMENDATIONS:*

4. *Perpetual inventory records should be completed for meat inventories, compared to the physical counts and any differences investigated.*

FERGUS FALLS REGIONAL TREATMENT CENTER

5. *The dry goods food storage area should be locked to prevent unauthorized admittance.*

Unit supervisors have not consistently retained overtime/leave request forms to document the authorization of compensatory time earned or leave taken.

The Department of Finance Operating Policy and Procedures 07:04:22 and 07:04:23 provide that overtime/leave request forms should be used to assure that all overtime worked and personal leave taken by state employees has been properly authorized and reported. These request forms should be submitted by the employee and approved by the employee's supervisor prior to the overtime being worked or leave being taken, and should be maintained with the employee's time sheet.

We found 8 of 25 items tested to be exceptions, where leave taken or overtime earned was not approved in advance or was not supported by overtime/leave request forms. Thus, we could not verify that all leave taken or overtime worked was approved in advance by the employee's supervisor. Without the assurance that all leave taken and overtime worked has been authorized in advance, we were unable to determine if all overtime worked and leave taken was properly authorized and approved.

RECOMMENDATION:

6. *All Fergus Falls Regional Treatment Center employees should submit overtime/leave request forms for authorization in advance of the overtime being worked or leave being taken.*

Resident cash maintained on the wards is not periodically reviewed by business office personnel, and frequently exceeds the FFRTC policy limit.

Residents are allowed to maintain small amounts of cash on the wards for purchases such as pop, candy, gum, etc. FFRTC policy states that the maximum amount of cash to be kept on the ward for each resident is \$5. We found 13 residents in two wards with cash balances exceeding the \$5 limit, with one as high as \$35. We also noted that these funds were not periodically reviewed or checked by personnel from either the business office or the resident bank. Since the resident funds which are maintained on the wards are subject to a greater risk of theft or loss than those maintained at the resident bank, the monies kept on the wards should be checked periodically to ensure the integrity of the funds.

RECOMMENDATIONS:

7. *The FFRTC policy of a maximum of \$5 cash maintained on the ward per resident should be complied with or revised.*
8. *Business office personnel should periodically review the resident cash and records maintained on the wards to ensure the proper control and maintenance of these resident funds.*

FERGUS FALLS REGIONAL TREATMENT CENTER

STATUS OF PRIOR AUDIT RECOMMENDATIONS  
AND  
PROGRESS TOWARD IMPLEMENTATION

An agreement between the Evaluation and Training Center of Fergus Falls State Hospital and Medallion Kitchens, Inc. should be formalized.

1. The Evaluation and Training Center should execute a formal contract with Medallion Kitchens, Inc. in compliance with Contract Management policies and procedures governing income contracts.

*Recommendation Implemented. An agreement was established in June 1983 between Medallion Kitchens, Inc. and Fergus Falls State Hospital.*

Detailed policies and procedures for various accounting activities of the ETC are not in writing.

2. The FFSH business office should develop detailed written policies and procedures for the various accounting activities performed by the ETC.

*Recommendation Implemented. Policies and procedures for the ETC accounting operations were developed in May 1983.*

Internal controls over inventories of the FFSH's ETC need to be strenghtened.

3. FFSH's ETC personnel should establish an inventory recordkeeping system in compliance with criteria specified in the Department of Administration's Consumable Inventory Management Program Manual.
4. Once established, the system should be periodically compared to the results of a physical inventory taken by someone (preferably from the business office) independent of the custodial and record-keeping functions.

*RECOMMENDATIONS PARTIALLY IMPLEMENTED. See current recommendation #3.*

The financial activity of the ETC is not recorded on the Statewide Accounting (SWA) system.

5. The financial operations of the ETC should be recorded in the SWA system as follows:
  - all receipts should be deposited in a local state depository;
  - a determination should be made whether an imprest cash account is necessary for certain ETC purchases and if so, approval for establishment of an account should be obtained from the Department of Finance; and

FERGUS FALLS REGIONAL TREATMENT CENTER

5. (con't)

- expenditures should be made through SWA, or through the imprest cash account and subsequently reimbursed through SWA.

*Recommendation Implemented. Our current review indicated that the financial operations of the ETC were properly recorded on SWA, for the years 1983, 1984, and 1985.*

Evaluation and Training Center personnel purchased tools from the center for their personal use, in violation of Minn. Stat. Section 15.054.

6. FFSH management should inform all hospital personnel of the following provisions of Minn. Stat. Section 15.054:

- state officers and employees are forbidden to purchase merchandise from government agencies except for government property sold to the general public in the normal course of business, at a public auction, or by sealed bid process; and
- a person violating the provisions of this section is guilty of a misdemeanor.

*Recommendation Implemented. Operational policy #13 was issued on May 4, 1983 by the ETC director. Item #1 states, "No officer, instructor, or employee of the State of Minnesota . . . shall sell or procure for sale, or have in his possession or control for sale to any other employee of the state, as appropriate, any property or materials owned by the state except pursuant to conditions provided in the statutes, Section 15. This does not apply to items produced for sale in the ETC or the Activity Center or the Adult School."*

FFSH personnel are not collecting sales tax on the items made by residents working in the ETC and sold to the general public.

7. FFSH should collect sales tax on the sale of finished goods and deposit it in accordance with the Department of Finance's Operating Policy and Procedure Number 06:06:12. The monthly sales tax reports should also be prepared and sent to DOF's general accounting section.

*Recommendation Implemented. Sales tax was collected and deposited in the State Treasury for fiscal years 1983, 1984, and 1985.*

Hospital residents and unit supervisors are not turning in retail store charge slips to Sugar Bowl personnel for proper reduction to the residents' social welfare account balances.

8. All payments to vendors for residents' charge purchases should be supported with retail store charge slips.

FERGUS FALLS REGIONAL TREATMENT CENTER

8. (con't)

*Recommendation Implemented. Retail store charge slips were turned in for the fiscal years 1983, 1984, and 1985.*

FFSH business office personnel do not reconcile imprest cash funds on a timely basis.

9. To strengthen internal accounting controls over the current expense, resident pay, and social welfare imprest cash funds, business office personnel should reconcile these funds to their authorized levels and to bank balances on a monthly basis.

*RECOMMENDATION PARTIALLY IMPLEMENTED. Currently, imprest cash funds are reconciled on a monthly basis; however, an independent person should complete or review the reconciliations periodically. See current recommendation #1.*

# Fergus Falls REGIONAL TREATMENT CENTER



North Union Avenue, Box 157, Fergus Falls, Minnesota 56537-0157  
Elaine J. Timmer, Chief Executive Officer

(218) 739-7200

May 1, 1986

James R. Nobles, Legislative Auditor  
John Asmussen, Deputy Legislative Auditor  
Legislative Audit Commission  
Veteran's Service Building  
St. Paul MN 55155

SUBJECT: Draft Audit Report, Fergus Falls Regional Treatment Center

Dear Sirs:

I would like to thank the Audit Commission and you for this opportunity to comment on the preliminary draft report of the Legislative Audit Commission document on Fergus Falls Regional Treatment Center. I appreciate the opportunity for having my comments and responses to your recommendations included as part of the report. I would refer the reader to the Current Findings & Recommendations for the balance of my comments, and I will comment on each Recommendation listed in the Draft Audit Report.

RECOMMENDATION:

1. The reconciliation of the checking accounts should be completed or checked by a person independent of the cash receipt and disbursement duties associated with the accounts.

RESPONSE:

We agree with this recommendation and Mr. Dennis W. Zilmer has implemented it starting with the March bank reconciliation.

RECOMMENDATION:

2. Cash from the sale of furniture should be collected by an employee independent of the sales function.

RESPONSE:

Starting May 12, 1986, the Resident Bank will collect the cash from ETC sales. This will be the responsibility of Mr. Dennis W. Zilmer, Business Manager.

RECOMMENDATION:

3. Physical counts of raw materials and finished goods should be taken by an independent employee having no access to inventory records and the results compared to the perpetual inventory records.

RESPONSE:

We agree with the above and Gerald Drews, Supervisor of the Materials Control Center will be responsible for carrying out this recommendation effective May 1, 1986.

RECOMMENDATION:

4. Perpetual inventory records should be completed for meat inventories, compared to the physical counts and any differences investigated.

RESPONSE:

Our Dietitian, Ms. Adelaide Cline, will be responsible for implementation of this recommendation, also Mr. Gerald Drews will oversee the inventory system as to compliance to Material Management Requirements, and Mr. Drews will review physical count procedures and any differences between Perpetual Inventory records and the physical count. All material differences will be reported to Mr. Dennis W. Zilmer, Business Manager. Effective July 1, 1986.

RECOMMENDATION:

5. The dry goods food storage area should be locked to prevent unauthorized admittance.

RESPONSE:

Gerald Drews will have the area secured as described, by May 30, 1986.

RECOMMENDATION:

6. All Fergus Falls Regional Treatment Center employees should submit overtime/leave request forms for authorization in advance of the overtime being worked or leave being taken.

RESPONSE:

A process of using a form for overtime authorization will be implemented on May 14, 1986 by Vernetta McClure, Personnel Officer/Supervisor.

RECOMMENDATION:

7. The FFRTC policy of a maximum of \$5 cash maintained on the ward per resident should be complied with or revised.

RESPONSE:

We agree with this recommendation. Mr. John Bloom will revise this policy by July 1, 1986.

RECOMMENDATION:

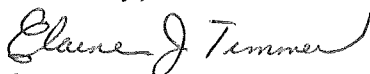
8. Business office personnel should periodically review the resident cash and records maintained on the wards to ensure the proper control and maintenance of these resident funds.

RESPONSE:

Mr. Dennis W. Zilmer, Business Manager, will be responsible for carrying out this recommendation effective immediately.

Again, I thank you for the opportunity to respond to the items above-listed in the Draft Audit Report.

Sincerely,



Elaine J. Timmer  
Chief Executive Officer

encs.