

**DEPARTMENT OF CORRECTIONS  
CENTRAL OFFICE  
FINANCIAL AND COMPLIANCE AUDIT  
FOR THE FOUR YEARS ENDED JUNE 30, 1985**

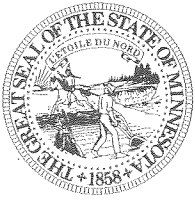
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**MAY 1986**

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Financial Audit Division  
Office of the Legislative Auditor  
State of Minnesota





STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

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JAMES R. NOBLES, LEGISLATIVE AUDITOR

Senator Randolph W. Peterson, Chairman  
Legislative Audit Commission

Members of the Legislative Audit Commission

Orville B. Pung, Commissioner  
Department of Corrections

Audit Scope

We have completed a financial and compliance audit of the Department of Corrections - Central Office (DOC) for the four years ended June 30, 1985. Section I provides a brief description of the Department of Correction'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 April 18, 1986.

The objectives of the audit were to:

- study and evaluate major Department of Corrections (DOC) internal control systems, including receipts, disbursements, payroll, cash funds, and fixed assets;
- 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 241 to 244 and 401, and other finance-related laws and regulations; and
- determine the status of prior audit recommendations included in our report on Correctional Facility Administration for the year ended June 30, 1983.

DOC maintains nine correctional facilities under separate management, but DOC has some overall responsibility for facility guidance and coordination. Audit coverage of the correctional facilities is performed separately on a periodic basis and is not included in the scope of this examination. Our last audit coverage in DOC included the divisions responsible for facility coordination and five facilities.

The management of DOC is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments 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.

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

During our audit, we employed a variety of audit techniques. These included, but were not limited to auditor observation, interviews with DOC staff, analytical reviews to identify unusual transactions or trends, and the examination of documentation supporting a representative number of transactions. Random sampling techniques were used to assure that representative samples of transactions were chosen. However, the use of random sampling did not prohibit us from reviewing additional transactions which may have come to our attention during the audit.

### Conclusions

In our opinion, except for the issues discussed in Section II, recommendations 1-4, the DOC Central Office 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.

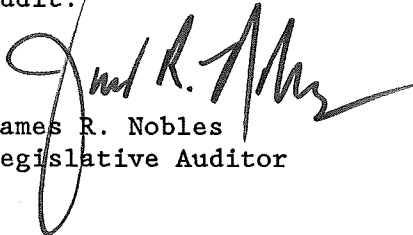
In our opinion, for the four years ended June 30, 1985, the DOC Central Office properly recorded, in all material respects, its financial transactions on the statewide accounting system.

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

Senator Randolph W. Peterson, Chairman  
Members of the Legislative Audit Commission  
Orville B. Pung, Commissioner  
Page 3

Section II of this report contains the recommendations we developed during this audit. They are presented to assist you in improving accounting procedures and controls. We will be monitoring and reviewing your progress on implementing these recommendations after the dates projected for completion as identified in the response to this report. Section III includes a summary of the progress on all recommendations developed during our audit of correctional facility financial administration in the central office for the year ended June 30, 1983.

We would like to thank the DOC staff for their cooperation during this audit.

  
James R. Nobles  
Legislative Auditor

  
John Asmussen, CPA  
Deputy Legislative Auditor

May 27, 1986



DEPARTMENT OF CORRECTIONS

CENTRAL OFFICE

TABLE OF CONTENTS

	<u>Page</u>
I. INTRODUCTION	1
II. CURRENT FINDINGS AND RECOMMENDATIONS	2
III. STATUS OF PRIOR AUDIT RECOMMENDATIONS AND PROGRESS TOWARD IMPLEMENTATION	6
AGENCY RESPONSE	8

AUDIT PARTICIPATION

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

John Asmussen, CPA	Deputy Legislative Auditor
Warren Bartz, CPA	Audit Manager
Jerome McCallson, CPA	Auditor-in-Charge
Carl Otto, CPA	Staff Auditor
Mary Lentsch	Staff Auditor
Linda Lochner	Intern

EXIT CONFERENCE

The findings and recommendations in this report were discussed with the following staff of the Department of Corrections on April 25, 1986:

Orville B. Pung, Commissioner  
Bruce W. McManus, Deputy Commissioner, Community Services  
Lurline Baker-Kent, Assistant Commissioner, Management  
Shirley Flekke, Director, Fiscal Services  
John Calabrese, Accounting Director  
Lucy Hainer, Supervisor, Grants Administration  
Bruce J. Reddeman, Controller





# DEPARTMENT OF CORRECTIONS

## CENTRAL OFFICE

### I. INTRODUCTION

The Department of Corrections - Central Office (DOC) is a service and regulatory agency which develops and implements plans for operation of institutions and community programs for adjudicated delinquents and adult felons. DOC establishes standards and provides money and technical assistance to counties for a wide variety of programs. The primary goal of DOC is to protect society. DOC operates nine institutions with an average daily population of over 2,500. Parole and probation services are provided to about 8,000 persons annually. Subsidy payments and technical assistance to 27 counties are provided under the Community Corrections Act.

The management services area provides overall administration of the department, including fiscal, personnel, training, office services, research and information systems. The offices of adult and juvenile release and women's planning also are included. DOC activities are financed mainly from General Fund appropriations. DOC has an overall authorized staff complement of approximately 1,860 positions.

Central office expenditures, excluding institutional appropriations of \$53.9 and \$56.1 million, for fiscal years 1984 and 1985 were as follows:

	Fiscal Year	
	1984	1985
<u>General Fund</u>		
Policy and Planning	\$ -0-	\$ 506,900
Management Services	3,341,900	2,933,000
Community Services	22,199,900	23,715,300
Education	368,400	287,100
Institution Support Services	322,800	345,500
Industry Coordination	119,600	121,800
Total General Fund	<u>\$26,351,700</u>	<u>\$27,909,600</u>
<u>Federal Fund</u>		
Federal Grants	313,756	255,424
<u>Special Revenue Fund</u>		
Shelter Programs and Other	506,910	665,016
<u>Trust and Agency Fund</u>		
Work Release Program and Gifts	<u>221,899</u>	<u>179,219</u>
TOTAL EXPENDITURES	<u>\$27,394,265</u>	<u>\$29,009,259</u>

## DEPARTMENT OF CORRECTIONS

### CENTRAL OFFICE

#### II. CURRENT FINDINGS AND RECOMMENDATIONS

##### Financial status reporting and monitoring of county subsidy grants needs to be improved.

In fiscal years 1984 and 1985, \$12,587,684 and \$13,612,056 was paid by the Department of Corrections to 27 counties throughout the state, under Minn. Stat. Chapter 401 (Community Corrections Act). The 12 subgrantees (counties or groups of counties) participating in the program must develop a local comprehensive plan which identifies correctional needs and defines programs designed to meet those needs. To determine the amount of aid to be paid to participating counties, a statutory formula that involves computation of a number of factors is applied. Some of the factors used in the computation are based on figures submitted by all 87 counties of the state. In addition, participating subgrantees submit quarterly financial status reports and narrative budget reports which list funding sources, expenditures, percent of budget spent, and summaries of program effectiveness. The amount of the subsidy available (funds awarded by DOC to participants less chargebacks for use of juvenile facilities at Red Wing and Sauk Centre) also need to be included.

Our review of this program disclosed that the quarterly financial status reports from subgrantees do not contain necessary data to verify central office financial transactions and balances with those shown by subgrantees. The grant agreements between the State of Minnesota and the subgrantees require each subgrantee to submit reports at the end of each quarter. Our testing of calendar year 1984 showed that inaccurate amounts of beginning subsidy balances were reported by 4 of 12 subgrantees. For example, one county showed a beginning subsidy balance forward at January 1, 1984, of \$197,787 on the final status report for calendar year 1984, but the central office records showed the correct balance of \$336,845. We do not know the reasons for the difference. However, it may be partially caused by the statutory method requiring chargebacks for use of juvenile facilities against subsidy eligibility awards. This makes it more difficult for subgrantees to account for subsidy balances carried forward. DOC central office handles the recordkeeping for chargebacks on a quarterly basis, but DOC needs to have the additional expenditure information provided by the quarterly reports. The status report also does not require beginning or ending cash balances which totaled \$570,257 for all subgrantees at December 31, 1984.

The failure of financial status reports to provide all necessary data makes it difficult to determine local cash balances and carry-forward subsidy balances. As a result, the central office lacks the necessary information from the financial status reports to check its records. The central office staff requested a special verification of grantee balances as of December 31, 1985, and plans to make necessary revisions of the quarterly financial status report form, so that all subgrantees and central office record balances can be compared for accuracy.

## DEPARTMENT OF CORRECTIONS

### CENTRAL OFFICE

Other options for verification of the data could be considered. The internal audit function has been established at the DOC central office since February 1984 and could include monitoring of county subsidy grants. Internal audit coverage can be a valuable tool in all major areas of a department, including the community service subsidy grants program to counties. DOC also could work with the State Auditor to obtain adequate audit coverage at the county level.

The formula and accounting for county subsidy grants is complex and is set by Minnesota statutes, MCARs 2905, and DOC Policy and Procedure 2-514.0. Internal review and monitoring of this program is necessary to determine compliance.

#### *RECOMMENDATIONS:*

1. *The Department of Corrections accounting personnel should revise or supplement the quarterly financial status report so that all transaction totals and balances are submitted by county subsidy subgrantees and so that it provides a method to reconcile central office and local records.*

DOC inventory staff have not taken a physical inventory of fixed assets at their new location.

The Department of Administration's Fixed Asset Inventory Section provides the system of accounting for equipment at state departments and agencies. This system requires periodic physical spot-checking of inventory to provide an accurate accounting and proper utilization of fixed assets in each agency's possession. The spot-checking is to be supplemented with complete physical inventories only under special circumstances, such as the high risks associated with a move. Performing a complete physical inventory when a department moves to a new location helps to assure that all inventory is accounted for. During a move, fixed assets could be lost, stolen, misplaced, damaged or assigned to new locations.

The Department of Corrections moved to a new location on July 1, 1985, but has not yet taken a physical inventory count of the equipment on hand. DOC personnel agree a complete physical inventory is needed. Without a current inventory count, inventory records may be inaccurate and/or the agency may have obsolete or surplus property. The last complete physical inventory on May 9, 1983, showed a total fixed asset value of \$216,000.

#### *RECOMMENDATION:*

2. *Because of a recent DOC move, a complete physical inventory of equipment should be taken to verify the State Property Inventory records, and if necessary, to properly dispose of any surplus or obsolete equipment. In the future, spot-checking should be used first to identify significant inventory problems.*

DEPARTMENT OF CORRECTIONS

CENTRAL OFFICE

No verification of local mileage reported on corrections agent expense reports is done.

During our testing of travel and subsistence payments, we found that only mileage reported under "trip miles" was checked for reasonableness. DOC's accounting clerk relies on the individual's supervisor to look at the accuracy of the mileage reported as "local miles." Some staff members, such as corrections agents, do most of their work in an assigned field and have extensive private car local mileage reimbursed. Monthly reimbursement forms for two agents tested showed 633 and 570 local miles.

The employee expense report, form FI-00010-03, states "under local miles show actual odometer miles of driving necessary to accomplish purpose of trip . . . ." This provides the Finance instructions on how local mileage is to be documented. The Department of Finance does not require that actual odometer readings be shown on employee expense reports. However, in a high risk situation such as where corrections agents are assigned to a widely-traveled field area, a log seems to be an appropriate vehicle for verifying mileage. Without proper documentation of the local mileage reported, employees could be claiming excessive mileage. Private car mileage (trip and local) claimed during fiscal year 1985 was \$103,000.

*RECOMMENDATION:*

3. *The Department of Corrections central office should require log book odometer readings for employees normally receiving high private car local mileage reimbursements.*

The invoices requesting payment for presentencing investigations do not conform to the billing provisions in the contracts.

The DOC executes written contracts with independent professional individual or private agencies for completion of presentence investigations. Presentence investigations are ordered by judges to give a prior history of the person being sentenced. Minn. Stat. Section 609.115 requires that this type of professional service be available to probation officers. Annual contracts for service totaled approximately \$13,000 and \$42,000 for fiscal years 1984 and 1985. Caseloads in the courts increased during the second year, when additional services were needed.

DOC usually pays a set fee for presentence investigations, although the contracts specify a rate per hour. The invoices submitted to DOC for investigations have not detailed the work done, so verification of the invoice is not possible. For instance, one invoice requested payment for \$25 and the contract stated that compensation was \$7.50 an hour. The person would have had to work three and one-third hours to be eligible for \$25, yet the invoice did not detail how many hours were actually worked. The problem seems to be caused by DOC's negotiating cost-beneficial fees, which are not stipulated in the contracts.

DEPARTMENT OF CORRECTIONS

CENTRAL OFFICE

As instructed by Department of Finance Procedure 06:05:01, invoices are to be verified to validate that the payment being made is proper. Without proper information to verify the accuracy of the services ordered, excessive payments could be made and contractors could mischarge.

*RECOMMENDATION:*

4. *Invoices for payment under presentencing investigation contracts should detail both the number of hours spent investigating and the number of hours spent typing so that billings can be verified, or the contracts should be modified to conform to the present practice of paying set fees.*

DEPARTMENT OF CORRECTIONS

CENTRAL OFFICE

III. STATUS OF PRIOR AUDIT RECOMMENDATIONS  
AND

PROGRESS TOWARD IMPLEMENTATION

Improved coordination and review of the financial policies and procedures for the correctional facilities are needed.

1. DOC central office should increase its role in coordinating and monitoring the financial activities and procedures of the various correctional facilities by:
  - updating the Policies and Procedures Manual to provide guidance to the correctional facilities on the proper policies for various fiscal operations;
  - maintaining an internal audit function to periodically review the operations of the various correctional facilities to ensure compliance with established policies and procedures; and
  - working with the correctional facilities to correct the weaknesses and inconsistencies found in the audits of individual facilities.

*Recommendation Implemented. The manual has been updated since June 1985. Internal audit activity was maintained during fiscal year 1985 with follow-up of recommendations.*

Uniform policies, procedures, and accounting systems to direct the administration of the industry programs at the correctional facilities have not been developed.

2. DOC central office should assist the correctional facilities in developing uniform written policies, procedures, and accounting systems to provide administrative direction over the business aspects of the correctional industries programs, including:
  - cost accounting systems,
  - accounts receivable credit policies,
  - inventory valuation systems,
  - formal written contracts, and
  - financial statement preparation.

*Recommendation Implemented. A new guideline, "Minnesota Correctional Industries Policy and Procedures Manual," which addresses these concerns was developed and distributed in April 1985.*

DEPARTMENT OF CORRECTIONS

CENTRAL OFFICE

Controls over mail receipts need to be improved.

3. Incoming checks received through the mail should be restrictively endorsed "for deposit only" promptly when the mail is opened.

*Recommendation Implemented. The checks are being endorsed promptly since July 1984.*

4. The mail opener should prepare a control listing of incoming checks which should be reconciled to the deposit by another employee.

*Recommendation Implemented. An independent person has spot-checked the deposits to supporting detail since July 1984.*

Payroll expenditures are not accurately reported on the Statewide Accounting (SWA) System for two employees shared with other DOC units.

5. DOC central office should work with the MCF-Shakopee and Red Wing staff to properly charge the time of shared employees to the appropriate budget category. Expense transfers should be made on SWA to report actual payroll expenditures for each unit within the Department of Corrections.

*Recommendation Implemented. The dentist's salary is being allocated to the facilities on the proper basis effective July 1, 1985. The secretarial position has been put under contract effective September 1, 1985.*

Central office personnel do not always verify that services have been received before approving payments under higher education contracts.

6. Future higher education contractual agreements should require more specific details on terms of payments so that the receipt of services can be verified before payment. The appropriate facility should certify to the DOC central office that the terms of the higher education contracts have been met.

*Recommendation Implemented. New contracts have been executed and facility staff verify performance before central office personnel approve payments under contractual amounts effective August 1, 1985.*





May 27, 1986

Mr. James R. Nobles, Legislative Auditor  
Office of the Legislative Auditor  
Veterans Service Building  
St. Paul, Minnesota 55155

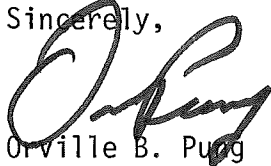
Dear Mr. Nobles:

As requested, I am enclosing our response to the findings and recommendations included in your audit report of the Department of Corrections - Central Office for the four years ended June 30, 1985. Implementation will take place no later than July 1, 1986.

Your financial and compliance review of the Central Office operations is appreciated and your recommendations are helpful to us. As you probably know, we plan in the next year to seek accreditation for the Central Office and Field Services through the Commission on Accreditation for Corrections. Of course, financial audits are included in their standards for accreditation.

If you have any questions or comments on our response, please feel free to call me or my staff.

Sincerely,



Orville B. Pung  
Commissioner

Enclosure

OBP:ye

Department of Corrections  
Central Office

RECOMMENDATION:

1. The Department of Corrections accounting personnel should revise or supplement the quarterly financial status report so that all transaction totals and balances are submitted by county subsidy subgrantees and so that it provides a method to reconcile central office and local records.

RESPONSE: The Department of Corrections will revise the quarterly financial report so that all transaction totals and balances are submitted by county subsidy subgrantees and so that a method of reconciling Central Office and local records is provided.

(Responsible individual - John Calabrese. Implementation: July 1, 1986)

RECOMMENDATION:

2. Because of a recent DOC move, a complete physical inventory of equipment should be taken to verify the State Property Inventory records, and if necessary, to properly dispose of any surplus or obsolete equipment. In the future, spot-checking should be used first to identify significant inventory problems.

RESPONSE: A complete physical inventory of nearly all areas has been accomplished. The inventory in the one remaining area was delayed due to adding new offices and remodeling adjacent ones. The inventory will be complete prior to June 15, 1986. Periodic inventories will continue in the future.

(Responsible individual - Del Leaf. Implementation: June 15, 1986)

RECOMMENDATION:

3. The Department of Corrections central office should require log book odometer readings for employees normally receiving high private car local mileage reimbursements.

RESPONSE: The Department of Corrections will review high private car local mileage reimbursements and develop a policy which will assist in accurate reporting of local mileage.

(Responsible individual - John Calabrese. Implementation: July 1, 1986)

RECOMMENDATION:

4. Invoices for payment under presentencing investigation contracts should detail both the number of hours spent investigating and the number of hours spent typing so that billings can be verified, or the contracts should be modified to conform to the present practice of paying set fees.

RESPONSE: The Department of Corrections will revise pre-sentence investigation contracts to conform to the present practice of paying set fees for the various types of pre-sentence investigations.

(Responsible individual - John Calabrese. Implementation: July 1, 1986)