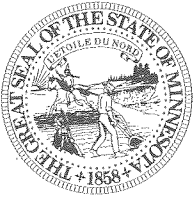


**DEPARTMENT OF HUMAN SERVICES
FARIBAULT REGIONAL CENTER
FINANCIAL AND COMPLIANCE AUDIT
FOR THE THREE YEARS ENDED JUNE 30, 1985**

JULY 1986

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



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

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Senator Randolph W. Peterson, Chairman
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. Leonard W. Levine, Commissioner
Department of Human Services

Mr. William Saufferer, Chief Executive Officer
Faribault Regional Center

Audit Scope

We have completed a financial and compliance audit of the Faribault Regional Center for the three years ended June 30, 1985. Section I provides a brief description of the Faribault Regional Center 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 Faribault Regional Center (FRC) 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 (SWA) System;
- verify that financial transactions were made in accordance with applicable laws, regulations, and policies, including Minnesota Statutes Chapters 246 and 252, and other finance-related laws and regulations; and
- determine the status of prior audit recommendations.

Management Responsibilities

The management of FRC 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, Chairman
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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 FRC 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 FRC. The purpose of our testing of transactions was to obtain reasonable assurance that FRC had, in all material respects, administered its programs in compliance with applicable laws and regulations.

Conclusions

In our opinion, except for the issues raised in Recommendations 1-9 in Section II of this report, the FRC system of internal accounting control in effect on March 31, 1986, 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.

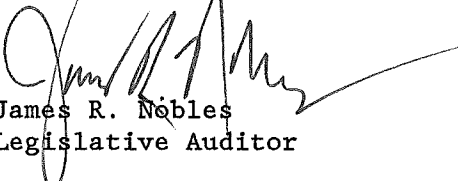
In our opinion, for the three years ended June 30, 1985, the FRC properly recorded, in all material respects, its financial transactions in the Statewide Accounting System.


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

Section II of this report contains both our recommendations developed during this audit and reiteration of our prior audit recommendations which have not yet been implemented. Prior audit recommendations repeated in this section are denoted under the caption "PRIOR AUDIT RECOMMENDATIONS NOT IMPLEMENTED" or "PRIOR AUDIT RECOMMENDATIONS PARTIALLY IMPLEMENTED." 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. Twenty-three of the 27 prior audit recommendations were implemented or substantially implemented.

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


James R. Nobles
Legislative Auditor


John Asmussen, CPA
Deputy Legislative Auditor

July 3, 1986

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AUDIT PARTICIPATION

The following members of the office of the Legislative Auditor participated in this audit:

John Asmussen, CPA	Deputy Legislative Auditor
Renee Redmer	Audit Manager
Charlie Gill	Auditor-in-Charge
Lori Pellicci	Staff Auditor
Chris Buse	Intern

EXIT CONFERENCE

The findings and recommendations in this report were discussed with the following staff of the Faribault Regional Center on June 17, 1986:

FARIBAULT REGIONAL CENTER

I. INTRODUCTION

The Faribault Regional Center (FRC) is a public residential facility serving the mentally retarded in a 14 county area in southeastern Minnesota. It is an intermediate care facility and provides specialized services to individuals who cannot properly be provided services or care in the home or community. The center is under the general management of the Commissioner of Human Services and the immediate supervision of a Chief Executive Officer (CEO) appointed by the Commissioner. Charles V. Turnbull was the CEO from January 23, 1974 through June 26, 1984. William Saufferer was acting CEO until March 19, 1985, when he was appointed CEO by the Commissioner.

During fiscal year 1985, approximately 1,150 to 1,200 full and part-time employees administered the general operations and various programs at the center. At June 30, 1985, FRC had a full-time equivalency of 1,078 employees. The average resident population for fiscal years 1983-1985 was 747, 709, and 668, respectively.

FRC 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, FRC had General Fund expenditures of \$28,619,264. Salaries accounted for 90 percent of those expenditures, current operating expenses 9 percent, with the remainder being repairs, replacements, betterments, and special equipment.

The average cost per capita at FRC has risen from \$21,305 in 1980 to \$42,843 in 1985, approximately a 101 percent increase. This change is mainly do to an increase in salary expenditures and a decrease in patient population.

FRC safeguards approximately \$295,556 of resident money as prescribed by Minnesota Statutes. These funds consist of wages, donations, and personal needs allowances.

The Work Activity Center (WAC) at FRC provides pre-vocational training for residents. Approximately \$18,500 was collected during fiscal year 1985 from the sale of goods manufactured by the residents in the WAC program.

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II. CURRENT FINDINGS AND RECOMMENDATIONS

The balances in the local checking accounts are in excess of what is reasonably necessary to conduct operations.

Four local checking accounts (contingent funds) are administered by FRC. They are payroll, social welfare, work activity center, and current expense. We believe these accounts have balances that are substantially higher than needed. We examined the daily account balances in March 1986 to determine the lowest balance. The lowest daily balance represents the amounts not needed for that particular month. The fund, authorized limit, and lowest daily balance for March 1986, are shown in the table below.

<u>Fund</u>	<u>Authorized Limit</u>	<u>Lowest Daily Balance</u>
Payroll Imprest Cash Fund	\$10,000	\$ 9,265
Social Welfare Contingent Fund	15,000	11,124
Work Activity Center Contingent Fund	1,500	964
Current Expense Contingent Fund	1,550	849

The two payroll accounts (payroll imprest cash and work activity center) were further reviewed to determine the amount that FRC would need each pay period for the residents' payroll programs. The highest payroll during the last quarter of fiscal year 1985 in the payroll imprest cash fund was approximately \$2,800. The amount needed for the work activity payroll on a biweekly basis was approximately \$600 for 1985.

Excessive balances in these accounts cause the state a loss of interest since these accounts do not earn interest at the local banks. Additionally, the potential for funds to be withdrawn for unauthorized uses is increased.

Each contingent fund should contain a balance sufficient to pay its expenses plus a reserve for emergency purposes and seasonal fluctuations. These funds should be monitored periodically by the business office to ensure that the balances are sufficient but not higher than necessary. Arrangements should also be made with the banks to place these funds in interest bearing checking accounts to maximize the use of the funds.

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RECOMMENDATION:

1. FRC should:

- determine the minimum checking account balances, needed to conduct daily operations and include a reasonable reserve for emergency usage and seasonal fluctuations; and
- transfer the contingent funds into interest bearing accounts.

FRC has not developed a policy to regulate social welfare disbursements to be made through the Department of Finance and the local contingent fund.

Minn. Stat. Section 246.15, Subd. 1 provides for the social welfare fund disbursements to be made through the state treasurer (currently Department of Finance) and authorizes the establishment of a local contingent fund, "All such funds shall be paid out by the state treasurer upon vouchers duly approved by the commissioner of human services as in other cases. The Commissioner may permit a contingent fund to remain in the hands of the executive officer of any such institution from which necessary expenditure may from time to time be made."

Social welfare disbursements should be processed through the Department of Finance's Statewide Accounting System unless otherwise justified for nonroutine or emergency expenses. During fiscal year 1985, the majority of the social welfare disbursements which approximated \$420,000 were made through the local contingent fund. Expenditures in excess of \$500 and \$1,000 were routinely made. We observed one payment to a single vendor that exceeded \$3,800. We believe that routine expenses such as these should be paid through the Statewide Accounting (SWA) System.

The local contingent fund is reimbursed periodically from the social welfare fund in the SWA system for the total amount of individual payments. At the time of reimbursement from SWA, the accompanying vouchers are not subject to the same administrative controls which are in effect for disbursements made directly through the SWA system. There are no procedures for the local contingent funds which assure that the same internal controls which are in effect for the SWA system expenditures, such as local purchase authority and competitive bidding for contracts, are not bypassed. Controls over social welfare disbursements would be strengthened by processing disbursements directly through SWA and using the contingent fund for nonroutine and emergency expenses.

RECOMMENDATION:

- #### 2.
- A written policy should be developed to distinguish between the type and amount of disbursements that should be made through the SWA system and those disbursements that can be made from the local contingent fund.

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PRIOR RECOMMENDATION PARTIALLY IMPLEMENTED. Duties relating to the social welfare fund are inadequately segregated.

Duties relating to the social welfare fund have been separated in preparing mail receipts and in posting entries to the residents' accounts. The night switchboard operators are responsible for preparing receipt slips for mail receipts and a data entry specialist has been hired to post entries to the residents' accounts. However, the functions that should be further separated are opening mail receipts, receiving cash, and preparing deposit slips. The person in charge of resident accounts is responsible for opening the mail, receiving cash from over-the-counter transactions, issuing receipts, preparing deposits, controlling the disbursement functions, and reconciling the social welfare account to the Statewide Accounting System.

The administration building secretary currently opens most of the mail for FRC. To adequately separate duties she should open all the business office mail and prepare a mail listing of all receipts received. It would also be beneficial if another business office employee, rather than the person in charge of residents' accounts, received all over-the-counter cash transactions and prepared receipts for them. An employee independent of the social welfare fund accounting should also periodically review the propriety of the reconciliation to SWA.

A system of good internal controls requires that no one person handle a transaction completely from beginning to end. Interaction of personnel is necessary to discover errors and irregularities and to safeguard the residents' assets.

RECOMMENDATION:

3. *Social welfare fund duties should be further segregated as follows:*
 - *an employee independent from the maintenance of the social welfare fund should open the mail, prepare a listing of mail receipts, and transmit the listing and receipts to the business office;*
 - *an individual independent from the maintenance of the social welfare fund should receive cash from over-the-counter transactions and prepare receipts; and*
 - *another employee should periodically review the reconciliations of the social welfare fund to SWA to ensure the propriety of the transactions and provide a double-check on the work done.*

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Procedures over social welfare disbursements are inadequate to ensure that residents' accounts are accurate.

Business office employees in charge of the social welfare fund at FRC are responsible for reviewing invoices for accuracy and posting the transactions to the residents' accounts. We tested 93 invoices for fiscal year 1985, and found 5 instances where calculations were incorrect, one transaction charged to the wrong resident's account, and 25 instances of improper cost codes being used. These cost codes are used in the social welfare fund cost accounting system to identify the type of transactions posted to the residents' accounts. For example, cost codes are used to specify the purpose of residents' withdrawals. Monthly statements showing the residents' financial activities are prepared from the cost accounting system and distributed to the respective social workers to review the propriety of the residents' transactions. Therefore, it is important that cost codes be correctly entered into the cost accounting system. Only the transaction charged to the wrong resident's account was corrected by FRC.

Strong internal controls require that all invoices be verified for math accuracy to ensure that prices and extensions are correct, and that all transactions be reviewed to ensure they were input correctly. This would help to detect errors that would otherwise go undetected.

RECOMMENDATION:

4. *Social welfare disbursement procedures should be improved as follows:*
 - *the incorrect calculation and improper cost codes used should be reviewed and corrected;*
 - *all invoices should be verified for math accuracy to ensure that extensions are correct; and*
 - *all disbursements should be reviewed by an individual independent of the social welfare fund disbursement process to ensure that the transactions are coded properly and input correctly.*

PRIOR RECOMMENDATION NOT IMPLEMENTED: Controls over the social welfare fund prenumbered receipt documents are inadequate to ensure that all documents are properly accounted for.

Business office employees are required to issue prenumbered receipts to those persons making deposits to the social welfare fund. If the deposit is made in person, the original receipt is given to the depositor as a proof of payment to the fund. If the deposit is made by mail, the receipt is put into the appropriate social worker's file. The second copy is kept with a carbon of the deposit slip as supporting documentation and the third copy is retained by the business office.

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We found that at least two separate books of prenumbered receipt documents were being used at one time. Receipts are issued and batched for deposit without any attempt to determine if all receipts can be accounted for in their numerical sequence. The use of prenumbered receipt books is an internal control feature that contemplates that all incoming cash will be documented with an entry in the prenumbered receipt book and that all entries in the prenumbered receipt books can be traced to their final disposition within the accounting system. The use of two receipt books at the same time and the use of receipt books out of sequence circumvents the ability to reconcile daily receipts to deposit slips and effectively negates the control feature contemplated by having prenumbered receipt documents.

RECOMMENDATION:

5. *Prenumbered receipt slips should be used in consecutive order and reconciled to the subsequent deposit.*

PRIOR RECOMMENDATIONS PARTIALLY IMPLEMENTED. There are no uniform written procedures to safeguard patient funds on the wards at FRC.

Petty cash funds are kept at 14 of the wards and day program service areas (DPS) for the residents to use for treats and miscellaneous items. Three of the four wards that we tested did not have written petty cash plans. Upon further investigation we found that only three of the 14 wards have submitted petty cash policies to the business office for review. We also found that the same three wards tested which did not have petty cash plans on file also allowed their residents to have negative balances in their accounts. From January to March 1986, 18 of the 20 residents in one ward had negative balances in their accounts at one point in time, with the highest negative balance being \$18.30.

Therefore, in addition to the lack of plans to properly administer petty cash funds on the wards, certain residents' expenses are being subsidized by other residents' funds. There is no statutory authority to allow residents to borrow funds from one another. Residents' funds cannot be properly accounted for or adequately monitored by the business office when negative balances are maintained at the wards. If a resident left FRC with a negative balance and did not have sufficient funds in his account at the business office, an unauthorized liability for the state will be incurred.

FRC Hospital Regulation #3602 provides that a plan must be developed for each petty cash fund by staff of residential units, households, or DPS's. Each residential unit houses residents with different functional needs and therefore require petty cash policies suited to their specific condition

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and needs. This plan must be approved by the unit manager, or DPS coordinator, and the Administrative Assistant and then sent to the business office for review. FRC Hospital Regulation #3603, Residents' Accounts Receipts and Disbursements, states that overdrafts of residents' accounts are not permissible.

The business office also does not verify that the amounts withdrawn from a resident's account to replenish his allowance at the ward is actually posted to the resident's allowance form. The amounts should be independently verified to ensure that all transactions are properly recorded at the wards. Funds may be used for unauthorized purposes if an independent check of the posting of residents' withdrawals to the allowance forms is not completed.

RECOMMENDATION:

6. *The following procedures and controls should be established at FRC:*

- *petty cash policies should be established in writing for each fund maintained at residential units, households, or DPS's;*
- *the cash boxes maintained at the wards should be replenished as necessary to ensure that residents do not have negative balances; and*
- *the business office should periodically verify that disbursements to replenish petty cash at the wards are recorded on the resident allowance forms and that negative balances are not being allowed.*

There is a lack of written operating procedures for the process of taking the residents downtown to cash their paychecks.

Some residents are routinely taken downtown to cash their Work Activity or Resident Work Program paychecks. We were told by the Day Program Services personnel that this is done to give the residents the normal experience of cashing a paycheck and that the resident either retains or spends a nominal amount of \$5.00 or less. The major portion of the cash received is deposited on the same day at the FRC business office resident's social welfare account.

We reviewed 17 checks that were cashed downtown in March of 1986, by 12 residents from West Cottage. Our tests disclosed that there is a time lag of three to eight days from the time the check is cashed to the time the remaining cash is deposited into the resident's account. The sample checks ranged in amounts from \$4.84 to \$24.96. In 14 cases, cash in excess of \$5.00 was either retained by the resident or the resident's

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supervisor during the three to eight day period, prior to deposit in the social welfare fund. One of the resident accounts did not show a deposit of the remaining cash and we were unable to document the final disposition of the cash.

The retention of the payroll cash at the cottages conflicts with the regular petty cash policy (FRC Hospital Regulation #3602) which provides a process for retaining residents' cash at the cottages. Controls over residents' funds are also weakened when exceptions to the written policies are allowed. We are also unable to determine the propriety of the residents' transactions.

The petty cash policies established for the individual wards should include the procedures for cashing the residents' paychecks. Written procedures should include the controls necessary to provide reasonable assurance that the resident's funds are properly safeguarded.

RECOMMENDATION:

7. *Operating procedures should be written for the process of taking the residents downtown to cash their paychecks.*

The shared services provided by the FRC kitchen to other state facilities should be supported by formal agreements.

Minn. Stat. Section 246.57, Subd. 1 provides in part that, "the commissioner of human services, after consultation with the legislative advisory committee, may authorize any state hospital to enter into agreement with other governmental and nonprofit health service organizations for participation in shared service agreements that would be of mutual benefit to the state, the health service organizations involved, and the public."

FRC provides weekly baking services to the St. Peter Regional Center (SPRC), the Academy for the Blind, and the Academy for the Deaf. During calendar year 1985, the FRC kitchen account received \$9,556, \$711, and \$1,833 from the above respective agencies. However, the agreements between FRC and the other state agencies are verbal.

When goods and services are provided by human services facilities to other agencies, there should be formal agreements stating the terms that the goods and services are to be provided. Without an agreement detailing the terms of the shared services we are unable to determine the propriety of charges and collections for these services.

RECOMMENDATION:

8. *FRC should develop written agreements which clearly establish the terms for all shared services provided to other state agencies.*

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FRC supervisors do not submit leave slips 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.

FRC has an unwritten policy that supervisors are not required to submit overtime/leave request forms. We found 3 of 18 items tested in fiscal year 1985 to be exceptions, where overtime earned or leave taken was not supported by overtime/leave request forms. The three exceptions were supervisors who had taken leave. Although the time sheets indicate overtime earned and leave taken and are signed by the supervisors, the leave slips are important since overtime and annual leave should be authorized in advance. We are not able to verify that all overtime worked or annual leave taken by supervisors was properly approved in advance without the leave slips that document the dates and approvals.

RECOMMENDATION:

9. *All FRC employees should submit overtime/leave request forms for authorization in advance of the overtime being worked or leave being taken.*

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III. STATUS OF PRIOR AUDIT RECOMMENDATIONS
AND

PROGRESS TOWARD IMPLEMENTATION

There are no uniform written procedures to safeguard patient funds on the wards at Faribault State Hospital.

1. Physical access to cash on the ward level should be more restrictive in nature. Assignments of keys and combinations to cash control areas should be made to authorized personnel only, with documentation to support the delegation of duties and procedures in this area.

Recommendation Implemented. Cash boxes are locked up and keys are issued restrictively.

2. Records should be maintained by the FSH business office which document the funds withdrawn from resident accounts by authorized personnel. Periodic reconciliations between business office records and disbursement ledgers maintained on the ward level should be completed.

RECOMMENDATION PARTIALLY IMPLEMENTED. Resident allowance forms which document funds withdrawn by authorized personnel are being maintained. Periodic reconciliations between business office records and disbursement ledgers maintained on the ward level are not completed. See current recommendation #6.

3. The accounting function should be extended to buildings outside the residence so as to coordinate the expenditure of patient funds. Withdrawals of patient funds from the business office should be more centralized and coordinated between residence buildings and activity centers. DAP leaders must improve their ability to account for expenditures made on behalf of residents.

Recommendation Implemented. The social worker from the appropriate building is required to approve DAP withdrawals.

4. Formalized, uniform written procedures which address the problem cited here should be developed and implemented by the FSH administration.

RECOMMENDATION PARTIALLY IMPLEMENTED. Regulations have been written for the business office procedures but not for the individual wards. See current recommendation #6.

Duties relating to the social welfare fund are inadequately segregated.

5. FSH should segregate the duties relating to the social welfare fund so that no one person has complete control over related functions. Periodic Internal Audits of the social welfare fund should be performed by the Accounting Supervisor.

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RECOMMENDATION PARTIALLY IMPLEMENTED. The duties for preparing mail receipts and posting entries to the residents' accounts have been further segregated to strengthen controls. However, the duties of opening mail, receiving cash, and listing mail receipts have not been adequately segregated. See current recommendation #3.

Social welfare fund receipts are not properly reconciled to Statewide Accounting System deposit reports.

6. Social welfare fund receipt totals should be reconciled monthly to either the Statewide Accounting Receipt by Deposit or Receipt by Appropriation reports. All deposit discrepancies should be corrected through these reports and actual reconciliations should be verifiable through appropriate documentation.

Recommendation Implemented. Documentation is currently maintained to verify that reconciliations to SWA are done on a monthly basis and reconciling items are identified.

Controls over the social welfare fund prenumbered receipt documents are inadequate to ensure that all documents are properly accounted for.

7. The FSH business office should account for and explain any differences or sequential breaks in prenumbered receipts issued.

RECOMMENDATION NOT IMPLEMENTED. See current recommendation #5.

Procedures for posting inactive accounts to the social welfare suspense ledger are inadequate.

8. FSH personnel should post inactive accounts to the suspense ledger immediately upon the death of a resident. Journal vouchers, approved by authorized personnel, should support all transfers between resident accounts and the suspense ledger.

Recommendation Implemented. The FRC business office is informed of a resident's death by the social worker responsible for the administration of the household in which the deceased resident previously resided. Death notices are also dated and posted in the business office. Upon notification, the business office puts an automatic hold on the resident's account so that no further transactions may take place in that account. The account remains on hold until the funeral bill or an affidavit from relatives or the state is received. If no claims are put on the account within 30 days, the funds are to be transferred to the suspense account. The resident accounts personnel review the postings periodically to ensure that the deceased residents' balances are transferred or disbursed properly.

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9. Separate documentation concerning the death of a resident should be forwarded directly to the accounting supervisor, who should periodically compare a list of deceased residents to the suspense ledger in order to monitor the disposition of inactive accounts.

RECOMMENDATION SUBSTANTIALLY IMPLEMENTED. We noted that the accounting supervisor does not independently monitor inactive accounts. However, since there are only a few of these accounts currently, we believe that the procedures established in number 8 above provide adequate controls over these accounts.

Sales revenue collected through the FSH greenhouse is not properly supported and deposited on a daily basis. Sales tax is not assessed on sales of finished goods.

10. The FSH greenhouse should issue prenumbered receipts for all sales and retain a duplicate copy to support its sales and subsequent business office deposits.

Recommendation Implemented. The cash register used at the greenhouse provides a tape of all daily sales which is kept with the receipts in the business office.

11. The greenhouse should take its sales receipts each day to the business office for deposit.

RECOMMENDATION SUBSTANTIALLY IMPLEMENTED: Deposits of receipts collected were not turned into the business office daily. Instead, a two to three day lag usually takes place between deposits. The longest lag we noted during March and April 1986 was a deposit on March 24, which included sales for a five day period. Since the daily cash register receipts are independently confirmed to the deposits by the business office, controls are enhanced. However, receipts should be submitted to the business office as soon as possible to ensure proper safeguarding and deposit in the state treasury.

12. FSH 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 report should also be prepared and sent to DOF's general accounting section.

Recommendation Implemented. FSH started collecting sales tax in August 1983 and reporting it to DOF in the same month.

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Duties performed by business office personnel are not properly assigned during employee absences.

13. Written procedures which formally provide for the assumption of duties in the event of employee absences should be developed. Employees to whom these additional duties will be assigned should be familiar with the functions they are to assume

Recommendation Implemented. Written procedures which formally provide for the assumption of duties in the event of employee absences were developed in fiscal year 1986.

The resident pay files do not contain the documentation required by DPW Policy #11.

14. FSH should update all resident files so that the documentation required by DPW Policy #11 is on file for each resident worker.

Recommendation Implemented. During our testing for fiscal year 1985, we found that required documentation was on file in all material respects.

Financial reports and monthly payment vouchers for the National School Lunch/Breakfast Program do not fairly present actual program costs and meals served.

15. Freight and transportation costs should be reported on the annual financial reports.

Recommendation Implemented. Freight and transportation charges are reported on the annual financial reports.

16. Actual salary costs should be obtained from the personnel department and reported on the annual financial reports.

Recommendation Implemented. The current method of calculating salary costs is fair and adequate.

17. Meals served to nasal gastrol residents should be included as reimbursable on the monthly payment vouchers.

Recommendation Implemented. The meals served to the nasal gastrol residents are included as reimbursable on the monthly payment vouchers.

18. Written procedures should be established to enable medical records to report the child nutrition data to the food service area correctly and promptly on a daily basis.

Recommendation Implemented. Written procedures were established.

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19. Only the actual number of meals served should be reported on the monthly payment voucher, based on daily attendance figures reported by medical records.

Recommendation Implemented. Only the actual meals served are reported.

Internal controls over the pharmacy area are weak.

20. Duties should be separated at a minimum as follows:

- the warehouse should send a copy of the receiving report or packing slip to the business office to compare against the original purchase order; and
- the chief pharmacist should initial the billing invoice to authorize payment.

RECOMMENDATION SUBSTANTIALLY IMPLEMENTED: The chief pharmacist initials the billing invoice to authorize payment. The recommendation that the warehouse should send a copy of the receiving report or packing slip to the business office has not been implemented. The only documentation of the pharmaceuticals received at the warehouse is sealed in the transport boxes. The chief pharmacist at FRC refuses to allow boxes containing drugs to be opened before they reach the pharmacy. Although this control procedure was not implemented, we feel that under the circumstances the additional controls that were established are sufficient to mitigate the consequences of not implementing this recommendation. The individual receiving the supplies at the pharmacy is not the same individual that orders the supplies, and is not the responsible individual for taking the periodic inventory.

21. Written procedures should be established for the process of taking inventory.

RECOMMENDATION SUBSTANTIALLY IMPLEMENTED: Procedures were established for the process of taking inventory. These procedures should be updated to reflect the usage of the portable data terminal in the process of taking the quarterly physical inventory. The sections on inventory cards should be deleted if they are no longer in use. The section on maintaining a three month supply should also be revised to reflect the current conditions.

22. EOQ's should be used to order supplies.

Recommendation Implemented. The use of the portable data terminal for inventorying and ordering through the primary vendor program enables the pharmacy to maintain an inventory of about two weeks usage. From July 1983 to April 1986, the pharmacy has reduced its inventory carrying costs by 35 percent.

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Controls over food service inventories need strengthening.

23. Duties should be separated at a minimum as follows:

- the persons ordering and receiving supplies should be separate;
- the persons removing supplies from storerooms should be separate from those approving the requisition sheets; and
- the persons authorizing requisition sheets should be separate from those taking inventory.

RECOMMENDATION SUBSTANTIALLY IMPLEMENTED AND PARTIALLY WITHDRAWN. The separation of duties between ordering and receiving supplies is adequate. Three separate individuals do the ordering of supplies. Although the chief cook also checks in the goods when received, they are actually put away by the warehouse staff. Parts 2 and 3 of recommendation 23 will be withdrawn. Department of Administration, Consumable Inventory Management, only requires the use of a requisition for removing inventory from the warehouse. To require the dietary staff to requisition supplies out of their working inventory is not practical or cost effective. Clipboards are used at kitchen storage areas to record the removal of supplies. Requisitions are being used to obtain supplies out of the warehouse as required.

24. Requisition sheets should be used to record the removal of all supplies from storerooms, freezers, or the warehouse so that all supplies used can be properly accounted for.

RECOMMENDATION SUBSTANTIALLY IMPLEMENTED AND PARTIALLY WITHDRAWN. All items removed from the warehouse are requisitioned. Items removed from other storerooms are in compliance with the Department of Administration, Consumable Inventory Management, requirements. See the disposition to recommendation #23.

25. Inventory sheets should be signed by the person taking the inventory to properly establish responsibility.

RECOMMENDATION SUBSTANTIALLY IMPLEMENTED. The chief cook at FRC takes a complete physical inventory monthly. Because she is the only employee performing the inventory count, she felt it was not necessary to sign the sheets. However, from now on she will sign the inventory sheets.

FARIBAULT REGIONAL CENTER

Disbursements are not reconciled to SWA on a timely basis.

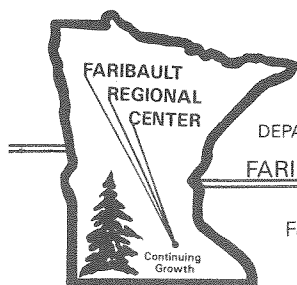
26. Disbursements should be reconciled to SWA on a monthly basis.

Recommendation Implemented. In fiscal year 1984, FRC developed a system to reconcile disbursements to SWA on a monthly basis.

There is no written verification of workers' compensation billings.

27. Each detailed billing for workers' compensation payments should be verified by FSH to assure the validity of the payment.

Recommendation Implemented. In fiscal year 1984, FRC developed a system for verifying the validity of workers' compensation payments made on behalf of FRC employees.



STATE OF MINNESOTA
DEPARTMENT OF HUMAN SERVICES
FARIBAULT REGIONAL CENTER

802 Circle Drive
Faribault, Minnesota 55021
(507) 332-3000

Writer's Phone Number: (507) 332-3530

July 3, 1986

Renee Redmer, Audit Manager
Office of the Legislative Auditor
Veterans Service Building
St. Paul, MN 55155

Dear Ms Redmer:

Thank you for providing us with an opportunity to respond to the recommendations contained in the draft copy of the audit report of Faribault Regional Center for the three years ending June 30, 1985. William Saufferer, Chief Executive Officer; Bridget Stroud, Assistant Administrator; and I have reviewed the report with the affected management team of FRC and wish to make the following responses to your recommendations. Mr. Saufferer has requested that I prepare this response.

Recommendations and Responses:

1. FRC should determine the minimum checking account balances needed to conduct daily operations and ...; and transfer the contingent funds into ~~in~~ interest bearing accounts.

Response: Please note that the "lowest daily balance" column reflects balances shown on the bank statement for March rather than the checkbook balance and therefore does not reflect checks written but not cashed. When balances after those checks are considered we believe that the current authorized limits are minimal for the Social Welfare and the Current Expense funds. However, the limits for the Payroll Imprest Cash

Fund and the Work Activity Center Fund are in excess of current needs and will be reviewed and adjusted by August 15, 1986. We will also review the legality and practicality of changing the accounts to interest bearing accounts by the same date. Richard Fick, Accounting Supervisor is the responsible person for this recommendation.

2. A written policy should be developed to distinguish...(which) disbursements should be made through SWA system and those...(to) be made from the local contingent fund.

Response: The current payment policy will be reviewed for internal control, changed as necessary, and published as a written policy by October 1, 1986. This is the responsibility of Richard Fick, Accounting Supervisor.

(continued)

3. Social welfare fund duties should be further segregated...

Response: An employee independent of the Social Welfare fund will open the mail and prepare a list of mail receipts for forwarding to the resident accounts section of the Business Office. Distribution of duties will be reviewed to accomodate the receiving of cash over-the-counter (and receipt preparation) by someone independent of the Social Welfare fund maintenance. The Social Welfare fund reconciliation to SWA is currently and will continue to be reviewed monthly by the Accounting Supervisor. Richard Fick, Accounting Supervisor, is the responsible person for implementation of these changes by September 1, 1986.

4. Social Welfare disbursement procedures should be improved...

Response: Calculations and cost codings used for Social Welfare disbursements will be doublechecked for accuracy to insure correctness. Sample disbursement reviews to insure accuracy will be made regularly by the Accounting Supervisor or his designee. Richard Fick is the responsible person for implementation by August 1, 1986.

5. Prenumbered receipts should be used in consecutive order and reconciled to the subsequent deposit.

Response: Two separate receipt number sequences are used because receipt transaction entries for Resident Social Welfare funds are required to be input promptly. Regular SWA deposits are sometimes entered later and therefore need to be listed on separate deposit forms. Therefore receipting for SWA deposits are handled independently from Social Welfare fund receipts for residents and a separate receipt series is used for each type of deposit. To further clarify this separation FRC will begin to keep separate filing systems for the processed receipts beginning July 1, 1986. Richard Fick is the responsible person for the implementation of this change.

6. The following procedures and controls should be established at FRC:
- petty cash policies should be established in writing...
 - cash boxes...should be replenished...to ensure that residents do not have negative balances.
 - the Business Office should periodically verify...petty cash at the (units).

Response: These recommendations will be met by September 1, 1986. See attached memo from Mary Kudla (sections 1 to 3).

7. Operating procedures should be written for the process of taking residents downtown to cash their paychecks.

Response: See attached memo from Mary Kudla (section 4).

8. FRC should develop written agreements which clearly establish the terms for all shared services provided to other state agencies.

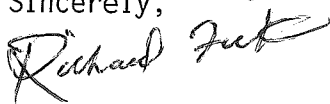
Response: Written agreements to clearly establish the terms for all shared services will be prepared by October 1, 1986. Richard Fick is the responsible person for implementation of this recommendation.

9. All FRC employees should submit overtime/leave request forms for authorization in advance...

Response: FRC will comply with this recommendation by August 1, 1986. Bridget Stroud, Asst. Administrator is the responsible person for implementation of this recommendation.

We appreciate and respect the opinions offered by your field audit staff, and the diligent manner in which they conducted the audit. Thank you again for the opportunity to make this response and the extension of time to do so.

Sincerely,

A handwritten signature in cursive script, appearing to read "Richard Fick".

Richard Fick, Accounting Supervisor
for W. C. Saufferer, CEO
Faribault Regional Center

cc: Tom Sherwood, DHS
Bridget Stroud, FRC

STATE OF MINNESOTA

DEPARTMENT MR Program Services

Office Memorandum

TO: Dick Fick, Accounting Supervisor

DATE: July 2, 1986

FROM: Mary Kudla, Program Director *mk/bd*

PHONE: 389



SUBJECT: Audit Report

1. All Units (not wards) and DPS areas will develop and submit petty cash plans according to Center Regulation #3602, along with up-to-date petty cash policies, to the Business Office for review by September 1, 1986. Responsible Person: Mary Kudla.
2. To ensure that certain residents' expenses are not being subsidized by other residents' funds and to ensure there are no negative balances, the cash boxes maintained by the Units and DPS areas will be replenished as necessary by the assigned social worker or designee and included in each Unit's policy. Responsible Person: Mary Kudla.
3. The Business Office will semi-annually verify that disbursements to replenish petty cash in the Units are recorded on the resident allowance forms and that negative balances are not being allowed. Responsible Person: Dick Fick.
4. Operating procedures for the process of taking the residents downtown to cash their paychecks will be developed by September 1, 1986. Responsible Person: Mary Kudla.

/bd

cc: Dale Offerman, PS II
Rhonda Mulder, Acting Service Chief, PS I