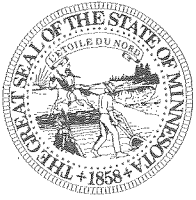


**MINNESOTA CORRECTIONAL FACILITY -
STILLWATER
FINANCIAL AND COMPLIANCE AUDIT
FOR THE FOUR YEARS ENDED JUNE 30, 1985**

JULY 1986

Financial Audit Division
Office of the Legislative Auditor
State of Minnesota



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

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

Orville B. Pung, Commissioner
Department of Corrections

Mr. Robert A. Erickson, Warden
Minnesota Correctional Facility - Stillwater

Audit Scope

We have completed a financial and compliance audit of the Minnesota Correctional Facility - Stillwater (MCF-STW) for the four years ended June 30, 1985, except for the social welfare accounts, as explained in the section on audit techniques. Section I provides a brief description of the MCF-STW'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 29, 1986.

The objectives of the audit were to:

- study and evaluate MCF-STW internal control systems, including revenues, expenses, assets, and liabilities;
- 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 other finance-related laws and regulations; and
- determine the status of prior audit recommendations.

Management Responsibilities

The management of MCF-STW 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.

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

Audit Techniques

During our audit, we employed a variety of audit techniques. These included, but were not limited to auditor observation, interviews with MCF-STW 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.

In addition to these audit techniques, we relied on our audit of the social welfare accounts for the periods ended June 30, 1982, and April 30, 1983 (report dated September 1983).

Conclusions

In our opinion, except for the issues discussed in Section II, recommendations 1-6, the MCF-STW 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 four years ended June 30, 1985 (two years ended June 30, 1985 for social welfare accounts), the MCF-STW properly recorded, in all material respects, its financial transactions on the statewide accounting system.

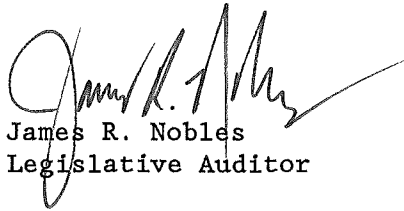
In our opinion, for the time period stated in the audit scope paragraph of this report, MCF-STW administered its programs in compliance, in all material respects, with applicable finance-related laws and regulations.

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

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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 the social welfare accounts for the periods ended June 30, 1982 and April 30, 1983. (Report dated September 1983.)

We would like to thank the Minnesota Correctional Facility - Stillwater staff for their cooperation during this audit.



James R. Nobles
Legislative Auditor



John Asmussen, CPA
Deputy Legislative Auditor

July 3, 1986

MINNESOTA CORRECTIONAL FACILITY - STILLWATER

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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
Jim Riebe	Auditor-in-Charge
Sonya Hill	Staff Auditor
Patrick Ryan	Staff Auditor
Joan Haskin	Intern

EXIT CONFERENCE

The findings and recommendations in this report were discussed with the following staff of the Minnesota Correctional Facility - Stillwater and the Department of Corrections on May 13, 1986:

Robert A. Erickson, Warden
John Twohig, Associate Warden, Administration
Thomas Dowdle, Associate Warden, Operations
Warren Erickson, Finance Director
Richard Christ, Industries Director
Shirley Flekke, Central Office Fiscal Services Director

MINNESOTA CORRECTIONAL FACILITY - STILLWATER

I. INTRODUCTION

The Minnesota Correctional Facility - Stillwater (MCF-STW) is one of nine correctional institutions operated by the Department of Corrections (DOC). Warden Robert A. Erickson was appointed by the Commissioner of Corrections and is responsible for operations of the prison.

MCF-STW is the state's largest correctional facility. General Fund allotments and salary supplements for fiscal year 1985 operations totaled \$17.7 million, or approximately 31.5 percent of DOC's appropriation for correctional facility operations. For all MCF-STW programs during fiscal year 1985, the facility collected approximately \$7.5 million in receipts, while disbursements totaled \$24.8 million.

MCF-STW is the receiving institution for all convicted male felons 24 years of age and older. The estimated average daily population at MCF-STW for fiscal year 1985 was approximately 1,040 inmates. As of March 1986, MCF-STW had an authorized complement of about 483 positions. The prison population includes inmates from other states and inmates convicted of federal crimes. MCF-STW is reimbursed for the costs of housing these inmates. During fiscal year 1985, MCF-STW received approximately \$964,000 in reimbursements from the federal government and other states.

In addition to protection of the public, the institution provides academic and vocational education and employment for inmates. Educational opportunities include basic education, college level courses, and various vocational programs. Employment opportunities consist of institution maintenance jobs and participation in the prison industry program. The industry operation includes:

- the metal products division which primarily manufactures farm machinery;
- the school bus renovation division which reconditions school buses and completes repair work on other vehicles; and
- the contract industries division which performs assembly and fabrication services for several private companies.

During fiscal year 1985, prison industry receipts and disbursements totaled approximately \$3,391,788 and \$3,171,986, respectively.

MCF-STW is responsible for the care and custody of all money belonging to inmates of the facility. The transactions involving the inmates' money are processed through the social welfare accounts. MCF-STW collected and disbursed approximately \$2.3 million on behalf of the inmates during fiscal year 1985.

MINNESOTA CORRECTIONAL FACILITY - STILLWATER

II. CURRENT FINDINGS AND RECOMMENDATIONS

Internal controls over consumable inventories need to be strengthened.

MCF-STW maintains several consumable inventories, including those for food preparation, the canteen, and the pharmacy. The total value of these inventories is approximately \$185,000. In these areas, the custodian is also involved in taking the physical inventory counts and is responsible for the related accounting records. The prevention or detection of errors or irregularities in these areas would be improved if someone independent of the inventory function, such as staff from the finance division, verified the accuracy of the physical inventory counts.

Currently, perpetual inventory records are not being maintained for pharmaceuticals at MCF-STW except as required by federal regulations for narcotics. A perpetual inventory system normally is used to record all purchases and issuances of inventory. The balance in these records then can be compared to actual physical counts to detect loss or theft of inventory and can also be used to determine the need to purchase additional inventory. A perpetual inventory system for the pharmacy is important because the inventory is sensitive, one person has complete control, and inventory balances are not independently verified. The pharmacy could establish a system for all pharmaceuticals (manual or computerized) similar to the one used for narcotics. Otherwise, MCF-STW staff could implement a computerized inventory system that would record purchases and issuances of pharmacy inventory which could then be compared to actual physical inventory counts.

The perpetual inventory records maintained for commissary consumable inventories had many discrepancies between what was recorded in the inventory records and what was on hand as determined by actual physical count. These discrepancies were not investigated by management to determine if they were based on errors in the inventory records or if there was a need to strengthen internal controls over the inventory to prevent loss or theft. Consequently, numerous adjustments to the inventory records had to be made by MCF-STW staff. In order for perpetual inventory records to be used effectively in ordering supplies and controlling inventories, the accuracy of the system is essential. The records are kept by inmates, who require considerable training by MCF-STW supervisors.

Another internal control concern in the commissary involves physical security of the storeroom areas. In order to control theft of assets, only authorized personnel should be allowed access to the storeroom. We observed that many staff have access to the inventory storage areas within the commissary.

Strong internal controls provide assurance that assets are adequately safeguarded from loss or theft and that they are properly recorded in the accounting records. Elements of a strong system of internal control for assets include:

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- an adequate separation of duties to ensure that the same individual cannot commit errors or irregularities that would not be prevented or detected;
- physical security over the assets; and
- an accurate recordkeeping system which can be relied on for detecting loss or theft.

RECOMMENDATIONS:

1. *Physical inventory counts in all inventory areas including the pharmacy, canteen, and food areas should be verified by employees independent of the inventory areas.*
2. *The MCF-STW pharmacy should establish a perpetual inventory system.*
3. *Internal controls in the commissary should be strengthened as follows:*
 - *after inventory records are reconciled to actual physical counts, material discrepancies should be investigated; and*
 - *admittance to the commissary storeroom should be limited to authorized personnel.*

Internal controls over the payroll for inmates employed in the food service program require improvement.

Approximately 34 inmates are employed in the food service program, where they gain experience in food preparation while contributing to prison operations. Inmate payroll for this program was approximately \$122,000 during fiscal year 1985.

MCF-STW has a contract with a consultant to provide professional and technical services in connection with the food service program. The consultant operates the food service, orders and manages the food inventory, supervises the inmates employed in the food service, prepares inmate timesheets, and computes inmate wages. This data is then submitted to the MCF-STW finance division for processing, and the earnings are recorded in the inmates' social welfare accounts.

A strong system of internal controls over payroll costs ensures that payroll calculations are accurate, supported by adequate documentation, and properly recorded. The following internal control weaknesses exist in the food service inmate payroll process:

- Supervisors of food service inmates do not sign the inmates' timesheets. This certification would help ensure that inmates are only paid for actual hours worked.

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- Food service inmates receive a type of incentive or premium pay for attendance on the job. This provision is not included in the MCF-STW inmate pay plan and the calculation of the incentive pay is neither precisely calculated nor well documented.
- The manual calculation of inmate payroll by the consultant is not independently reviewed by a MCF-STW employee. Therefore, errors or irregularities may go undetected.

RECOMMENDATIONS:

4. *Food service supervisors should approve inmate payroll by signing inmate timesheets.*
5. *MCF-STW management should decide whether to continue the incentive pay plan for inmates employed in the food service and include such a provision in the inmate pay plan. If adopted, the calculation of any incentive pay should be well documented.*
6. *The calculation of inmate payroll for the food service program should be independently verified by a MCF-STW employee.*

MINNESOTA CORRECTIONAL FACILITY - STILLWATER

III. STATUS OF PRIOR AUDIT RECOMMENDATIONS
AND
PROGRESS TOWARD IMPLEMENTATION

Audit of the Social Welfare Accounts for the Periods Ended June 30, 1982 and April 30, 1983. (Report dated September 1983.)

Social welfare contingent checking account procedures need to be improved.

1. The frequency of reimbursement requests to the contingent checking account should be increased, or the authorized level of the checking account should be increased, to avoid a negative account balance.

Recommendation Implemented. The authorized amount of the social welfare contingent account was increased to \$100,000 in October 1984.

2. The contingent checking account balance should be calculated daily and recorded in the check register.

Recommendation Implemented. Beginning February 1986, the contingent checking account balance was calculated for each page of the check register.

Unclaimed inmate accounts files are not totaled for accuracy on a timely and regular basis.

3. The unclaimed accounts file should be totaled for accuracy at least quarterly and reconciled to the general ledger control account. Any discrepancies should be investigated and resolved.

Recommendation Implemented. Since May 1983, the unclaimed inmate accounts file is totaled monthly and reconciled to the general ledger.

Old unredeemed inmate bonds which have matured are on file in the facility vault.

4. The U.S. Treasury Department - Bureau of Public Debt should be contacted to determine the proper method of disposing of the bonds, and whether the proceeds can be deposited into the social welfare accounts pursuant to Minn. Stat. Section 241.09 or must be left with the federal government awaiting any legal claimants.

Recommendation Implemented. The unredeemed bonds were submitted to the U.S. Treasury Department during October 1983.

OFFICE OF THE WARDEN

July 3, 1986

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

Dear Mr. Nobles:

Enclosed is our response to your letter dated June 23, 1986, for the audit conducted by your office. The audit covered four years ending June 30, 1985.

The response covers the recommendations listed in your report, the person responsible for implementing the recommendation, and the date projected for completion.

We appreciate your assistance in conducting this audit, which will improve our accounting and internal control procedures. Warren Erickson, Finance Director, will coordinate the implementation of the recommendations.

If you have any questions or would like further information, please contact me.

Sincerely,

Robert A. Erickson
Robert A. Erickson
Warden

RAE:sn

cc: Orville Pung, Commissioner
Shirley Flekke, Fiscal Service Director
John Twohig, Associate Warden, Administration
Thomas Dowdle, Associate Warden, Operations
Warren Erickson, Finance Director

MINNESOTA CORRECTIONAL FACILITY
STILLWATER

AUDIT RECOMMENDATIONS

Recommendation:

1. Physical inventory counts in all inventory areas including the pharmacy, canteen and food areas should be verified by employees independent of the inventory areas.

Response: Periodic inventory verification of consumable inventory items will be conducted by employees independent of the inventory centers by July 31, 1986. (Responsible individual: Warren Erickson)

2. The MCF-STW Pharmacy should establish a perpetual inventory system.

Response: A computerized inventory system is presently being implemented. This system will provide the data necessary to account for all drugs. The system will be operational by July 31, 1986. (Responsible Individual: Brian Finstad)

3. Internal controls in the commissary should be strengthened as follows:

- (a) After inventory records are reconciled to actual physical counts, material discrepancies should be investigated; and
- (b) Admittance to the commissary storeroom should be limited to authorized personnel.

Response: (a) A register to list purchases, receipts, issues and adjustments to the kardex are in place and functioning. Adjustments to the kardex will be investigated by the person responsible to determine the problem. This register should balance to the trial balance taken from the kardex on a monthly basis. (Responsible Individual: Jim Neuwirth)

(b) Physical changes will need to be implemented to limit access to the commissary store rooms. By September 30, 1986, changes will be in place. (Responsible Individual: Bill Mordick)

4. Food Service Supervisor should approve inmate payroll by signing inmate time sheets.

Response: Effective with payroll period ending July 25, 1986, all inmate time sheets will be verified and signed by the supervisor on duty. (Responsible Individual: Richard Voss)

5. MCF-STW Management should decide whether to continue the incentive pay plan for inmates employed in the Food Service and include such a provision in the inmate pay plan. If adopted, the calculation of any incentive pay should be well documented.

Response: The incentive rate will continue. The formula for calculating the rate will be adopted into the inmate pay plan and become effective August 15, 1986. (Responsible Individual: Warren Erickson)

6. The calculation of inmate payroll for Food Service Program should be independently verified by a MCF-STW employee.

Response: When the formula for calculating the incentive pay for inmates is in place, the payroll division in accounting will verify the Food Service inmate payroll. (Responsible Individual: Marlene Bastyr)