

**DEPARTMENT OF CORRECTIONS  
THISTLEDEW CAMP**

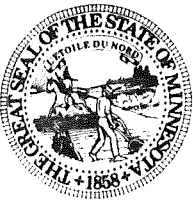
**FINANCIAL AND COMPLIANCE AUDIT**

**FOR THE THREE YEARS ENDED JUNE 30, 1985  
AND THE PERIOD ENDED APRIL 30, 1986**

**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

Mr. Orville B. Pung, Commissioner  
Department of Corrections

Mr. Derwood J. Lund, Superintendent  
Thistledeew Camp

Audit Scope

We have completed a financial and compliance audit of Thistledeew Camp for the three years ended June 30, 1985, and the period ended April 30, 1986. Section I of this letter provides a brief description of Thistledeew'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 May 23, 1986.

The objectives of the audit were to:

- study and evaluate major Thistledeew Camp internal control systems, including a review of receipts, payroll, fixed assets, cash funds, and administrative disbursements;
- verify that financial transactions were properly recorded in the statewide accounting system; and
- verify that financial transactions were made in accordance with Minn. Stat. Chapters 241 to 244 and 401, and other state finance-related laws, regulations, and policies.

Management Responsibilities

The Department of Corrections (DOC) maintains nine correctional facilities under separate management, but DOC has overall responsibility for facility guidance and coordination. The management of Thistledeew Camp is responsible for establishing and maintaining a system of internal accounting control. 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. In fulfilling this responsibility, estimates and judgements by management are required to assess the expected benefits and related costs of control procedures.

Senator Randolph W. Peterson, Chairman  
Members of the Legislative Audit Commission  
Mr. Orville B. Pung, Commissioner  
Mr. Derwood J. Lund, Superintendent  
Page 2

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

#### Audit Techniques

The Department of Corrections' (DOC) internal audit staff audited payroll, canteen operation and the social welfare accounts during October 1985 and issued an audit report covering fiscal year 1985 on December 2, 1985. We reviewed their work and report and relied upon their testing for the period. Because we did not want to duplicate their work, we selected our random sample of transactions from different periods of time. 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, we used other audit techniques such as auditor observation, interviews, analytical reviews of receipts and expenditures, and the examination of supporting documentation of representative but not duplicative transactions.

#### Conclusions

In our opinion, except for recommendation 1 addressed in Section II, the Thistledeew Camp system of internal accounting control in effect on April 30, 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.

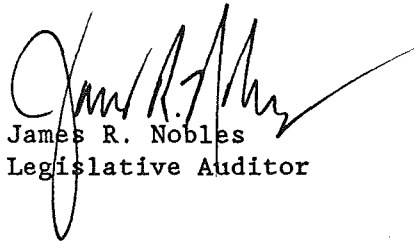
Because of the remote location of Thistledeew Camp, the Department of Corrections staff assumed some management responsibility and entered all transactions on the statewide accounting system. In our opinion, for the three years ended June 30, 1985, and the period ended April 30, 1986, the DOC properly recorded, in all material respects, Thistledeew Camp's financial transactions on the statewide accounting system.

Senator Randolph W. Peterson, Chairman  
Members of the Legislative Audit Commission  
Mr. Orville B. Pung, Commissioner  
Mr. Derwood J. Lund, Superintendent  
Page 3

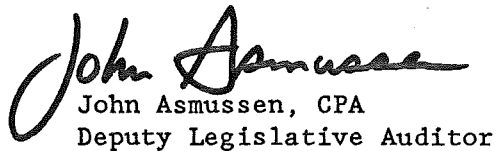
In our opinion, except for recommendation 2 addressed in Section II, for the three years ended June 30, 1985, and the period ended April 30, 1986, Thistledew Camp administered its programs in compliance, in all material respects, with applicable finance-related laws and regulations.

Section II of this report contains the recommendations we developed during the 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.

We would like to thank the Thistledew Camp staff for the cooperation extended to us during this audit.



James R. Nobles  
Legislative Auditor



John Asmussen, CPA  
Deputy Legislative Auditor

July 9, 1986



## THISTLEDEW CAMP

### TABLE OF CONTENTS

	<u>Page</u>
I. INTRODUCTION	1
II. CURRENT FINDINGS AND RECOMMENDATIONS	2
AGENCY RESPONSE	4

### AUDIT PARTICIPATION

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

John Asmussen, CPA	Deputy Legislative Auditor
Warren Bartz, CPA	Audit Manager
Ann Reite, CPA	Auditor-in-Charge
Mary G. Lentsch	Staff Auditor
Sandra Linn	Staff Auditor

### EXIT CONFERENCE

The findings and recommendations in this report were discussed with the following staff of Thistledeew Camp at an exit conference on May 23, 1986:

Derwood J. Lund, Superintendent  
Steve Grams, Accounting Officer





## THISTLEDEW CAMP

### I. INTRODUCTION

Thistledew Camp (Thistledew) is a unique educational facility which offers a three month program for 14 to 17 year old males who have experienced failure in the home, school and/or community. The camp has an average population of 50 and a staff of 35. All juvenile county courts within the state can refer juveniles to the camp which is intended to be a delinquency preventative program. In addition to providing all levels of educational resources, the camp also provides prevocational and work skill programs and Challenge, an outdoor wilderness survival program, which is appropriate to its location in George Washington State Forest, 45 miles north of Hibbing.

With the exception of General Fund appropriations for repairs and betterment (\$32,000 in fiscal year 1983 and \$52,300 in fiscal year 1985), Thistledew is totally self-sustaining. The camp receives payments from the juveniles' counties or families for use of the facility. Receipts totaled \$886,916, \$920,099, and \$1,015,943 in fiscal years 1983, 1984, and 1985, respectively. Thistledew also received \$324,906, \$297,798, and \$291,051 in fiscal years 1983, 1984, and 1985, respectively, in special education aids from the juveniles' school districts. The social welfare fund had immaterial receipts as did the work program which was discontinued in 1984. Expenditures were as follows:

	<u>FY 1984</u>	<u>FY 1985</u>	<u>Percent of Total Expenditures</u>
Personal Services	\$1,025,895	\$1,041,846	78%
Expense and Contractual			
Services	46,523	39,730	3%
Supplies and Materials	134,084	156,797	12%
Equipment and Buildings	16,759	7,906	6%
Other Administrative Expenses	65,817	47,968	4%
Social Welfare	<u>31,032</u>	<u>36,322</u>	3%
 TOTAL EXPENDITURES	 <u>\$1,320,110</u>	 <u>\$1,330,568</u>	

## THISTLEDEW CAMP

### II. CURRENT FINDINGS AND RECOMMENDATIONS

#### Internal controls over receipts need to be improved.

Thistledeew Camp receives money from many sources. The counties provide the primary source of income because they are required to pay \$59 per diem for each boy assigned to the camp. Receipts from this source totaled \$1,015,943 in fiscal year 1985 and \$842,038 through April 30, 1986. The camp also receives \$37,310 monthly from the Grand Rapids school district for special education and other miscellaneous receipts from the sale of firewood and meal tickets.

The business office staff consists of an accounting officer, an account clerk and one part-time general clerk. Currently, the account clerk is responsible for all receipt functions including billing the counties, opening the mail, writing a receipt form, entering and posting the transactions, preparing the deposits, and finally, reconciling the bank statement. Incoming checks also are not restrictively endorsed until the deposit is prepared. Because of this inadequate separation of duties, errors and irregularities could be concealed. Internal control would be strengthened if the duties were segregated. For example, the general clerk could receive the unopened checks, immediately endorse them, and prepare the deposit slips.

Deposits ranging in size from \$32,000 to \$104,000 were only made twice a month. Minn. Stat. Section 16A.275 requires receipts totaling more than \$250 to be deposited daily. Deposit delays weaken internal controls, since the opportunity for loss or theft increases. In addition, the state loses investment income on this money. We realize that the nearest bank is thirty miles away. However, we believe that deposits could be made more frequently if they were made by mail or if the night depositories were used by staff members driving near the bank on their way home from the camp.

#### *RECOMMENDATION:*

1. *Thistledeew Camp should improve internal controls over receipts processing as follows:*
  - *the duties involved in processing receipts should be separated;*
  - *checks should be restrictively endorsed upon receipt; and*
  - *deposits should be made more frequently as required by statute.*

#### Payroll procedures need to comply with state regulations and union contracts.

Payroll procedures were not always in compliance with state regulations or the various union contracts. Department of Corrections' (DOC) internal auditors identified similar problems during their recent review.

## THISTLEDEW CAMP

Alternate holiday time earned and used was a problem. Thistledew employees who work on a holiday are allowed to take alternate holidays in less than eight hour segments. The various plans and union contracts do not specifically state that alternate holidays must be taken in eight hour segments, although our office and DOC interpreted that an alternate holiday must be used in one day. DOC's internal auditors requested an interpretation from the Department of Employee Relations (DOER) regarding this; to date, they have not received the interpretation. Also, employees covered by union contracts do not always take alternate holidays within 90 days of earning them as required by the contracts.

The superintendent of Thistledew earns eight hours of alternate holiday time whether or not he actually works eight hours on the holiday. The superintendent is covered by the Managerial Plan which provides that a manager may take an alternate holiday if it is necessary to work on a regularly scheduled holiday. Both the accounting officer and the superintendent believe that the superintendent is entitled to earn the full eight hours because he works more than 80 hours in a pay period. From July 1985 to April 1986, the superintendent worked 42 hours on different holidays but earned 64 hours of alternate holiday time. In our judgment, despite the lack of clarity in the Managerial Plan, we believe that the superintendent needs to take annual leave if he does not work the full eight hours on a holiday. He then could earn an alternate holiday.

### *RECOMMENDATION:*

2. *Thistledew Camp should improve payroll procedures by the following:*
  - *management should monitor alternate holidays and ensure that they are all taken within the established time frames;*
  - *management should ensure that alternate holidays are used in accordance with the union contracts as interpreted by DOER; and*
  - *the superintendent should only earn the appropriate number of alternate holiday hours as provided in the Managerial Plan.*



**DEPARTMENT OF CORRECTIONS  
THISTLEDEW CAMP  
STAR ROUTE, BOX W-10  
TOGO, MINNESOTA 55788**

July 9, 1986

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

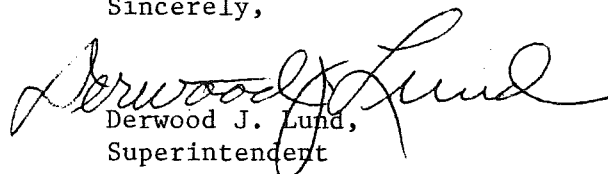
Dear Mr. Nobles:

Enclosed is our response to your recommendations of the audit conducted by your office May 23, 1986. The audit covered three years ending June 30, 1985, and the period ending April 30, 1986.

This response covers the two recommendations listed in your report, and the date we will implement. Stephen Grams, Business Manager, will coordinate the implementation of the recommendations.

We appreciate the fine work your auditors did while at Thistledew Camp, and commend them on their level of professionalism.

Sincerely,

  
Derwood J. Lund,  
Superintendent

DJL:rlc  
Encl:

THISTLEDEW CAMP

AUDIT RECOMMENDATION

RECOMMENDATION:

1. Thistledew Camp should improve internal control over receipts.
  - A. Processing receipts should be separated.
  - B. Checks should be restrictively endorsed upon receipt.
  - C. Deposits should be made more frequently as required by statute.

Response:

- A. B. Carol Zallor, part-time clerk, will open all incoming mail with checks, stamp endorse said checks and Roberta Cooke will then prepare the receipts.
  - C. We will comply by trying to deposit money more often so far as time allows. (Roberta Cooke)
2. Thistledew Camp should improve payroll procedures.
  - A. Alternate holidays should be taken within established time frames.
  - B. Alternate holidays shall be taken in full segments.
  - C. Superintendent should earn and use alternate holidays in accordance to the Managerial Plan.

Response:

- A. Will try to schedule alternate holidays within 90 days as far as the program allows. (Stephen Grams)
  - B. Will try to schedule alternate holidays in 8, 9, or 10 hour segments so far as the program allows. (Stephen Grams)
  - C. Superintendent will only take an alternate holiday in 8 hour segements if worked on a designated holiday.

DJL:rlc