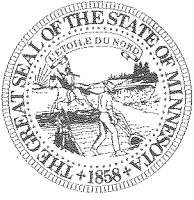

**MINNESOTA CORRECTIONAL FACILITY
SAUK CENTRE**

FINANCIAL AND COMPLIANCE AUDIT

**FOR THE THREE YEARS ENDED JUNE 30, 1985
AND THE PERIOD ENDED MARCH 31, 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. Dale E. Ulrich, Superintendent
Minnesota Correctional Facility - Sauk Centre

Audit Scope

We have completed a financial and compliance audit of the Minnesota Correctional Facility - Sauk Centre (MCF-SCR) for the three years ended June 30, 1985 and the period ended March 31, 1986. Section I provides a brief description of the MCF-SCR'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 MCF-SCR internal control systems, including receipts, disbursements, payroll, cash funds, fixed assets, and consumable inventories;
- verify that financial transactions were properly recorded in the statewide accounting system; and
- 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.

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 the MCF-SCR 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

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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 MCF-SCR 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 MCF-SCR. The purpose of our testing of transactions was to obtain reasonable assurance that MCF-SCR 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 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 1-3, the MCF-SCR 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.

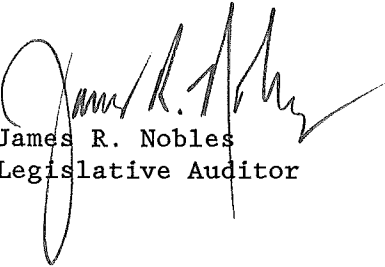
In our opinion, for the three years ended June 30, 1985, and the period ended March 31, 1986, MCF-SCR properly recorded, in all material respects, its financial transactions on the statewide accounting system.

In our opinion, for the three years ended June 30, 1985, and the period ended March 31, 1986, MCF-SCR administered its programs in compliance, in all material respects, with applicable finance-related laws and regulations.

Senator Randolph W. Peterson, Chairman
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Mr. Dale E. Ulrich, Superintendent
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Section II of this Audit 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.

We would like to thank the Minnesota Correctional Facility - Sauk Centre staff for the cooperation extended to us during this audit.



James R. Nobles
Legislative Auditor



John Asmussen, CPA
Deputy Legislative Auditor

July 16, 1986

MINNESOTA CORRECTIONAL FACILITY - SAUK CENTRE

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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
Jerome McCallson, CPA	Auditor-In-Charge
Lori Pellicci	Staff Auditor
Jean Mellet	Staff Auditor

EXIT CONFERENCE

The findings and recommendations in the report were discussed with the following staff of the Minnesota Correctional Facility - Sauk Centre on May 23, 1986:

Dale Ulrich, Superintendent
Alan Walz, Accounting Supervisor

MINNESOTA CORRECTIONAL FACILITY - SAUK CENTRE

I. INTRODUCTION

The Minnesota Correctional Facility - Sauk Centre (MCF-SCR) provides custody, evaluation and treatment for male juvenile offenders from 64 counties in the western region of the state and for all female juvenile offenders committed by the courts to the Commissioner of Corrections. Predispositional evaluations and detention services are also available to the juvenile courts. The institution was established in 1910 as a residential treatment facility for delinquent girls and was made coeducational in 1967. The facility is an open campus with living quarters consisting of two-story cottages each housing 20 residents. The average population is about 80 with a staff of 100, which is to be cut to 84 in fiscal year 1987. Curriculum includes basic education, career exploration through vocational/prevocational and work habit programs, and creative expression through elective programs. A wide range of recreational and community activities is also available.

MCF-SCR operations are financed mainly from the General Fund, which totaled \$3.6 million for fiscal year 1985 operations or 6.7 percent of DOC's institutional appropriations. Expenditures for the complete fiscal year ended June 30, 1985, and for the period ended March 31, 1986, were as follows:

	<u>Fiscal Year</u> <u>1985</u>	<u>9 Month Period</u> <u>Ended</u> <u>March 31, 1986</u>
<u>General Fund</u>		
Salaries	\$3,065,625	\$2,185,770
Current Expense	468,847	272,309
Repairs and Betterments	45,062	26,091
Special Equipment	14,415	11,443
Total General Fund	<u>\$3,593,949</u>	<u>\$2,495,613</u>
<u>Special Revenue Fund</u>		
Predisposition and Detention ⁽¹⁾	\$ 51,901	\$ 46,860
Child Nutrition ⁽¹⁾	47,998	0
Training Facility	0	42,952
Indirect Costs	0	3,952
Total Special Revenue	<u>\$ 99,899</u>	<u>\$ 93,764</u>
<u>Federal Fund</u>		
Education ⁽¹⁾	\$ 91,436	\$ 52,291
Child Nutrition	0	25,945
Total Federal Fund	<u>\$ 91,436</u>	<u>\$ 78,236</u>
<u>Agency Fund</u>		
Social Welfare	\$ 36,497	\$ 30,319
Canteen	18,337	14,940
Total Agency Fund	<u>\$ 54,834</u>	<u>\$ 45,259</u>
TOTAL EXPENDITURES	<u>\$3,840,118</u>	<u>\$2,712,872</u>

(1) Dedicated receipts were deposited to cover the costs of these programs.

MINNESOTA CORRECTIONAL FACILITY - SAUK CENTRE

II. CURRENT FINDINGS AND RECOMMENDATIONS

Local purchases were made without written authorization on department purchase orders.

The Department of Administration's Division of Procurement Manual Bulletin No. 7-206, Section 3.2 requires the use of a department purchase order or a department field purchase order for all purchases made from an outside vendor. Purchases may be made from existing state contract vendors or from local suppliers. Local purchase authority permits a state agency to make minor purchases under \$100 directly from local suppliers with use of a purchase order. MCF-SCR requested fiscal year 1986 local purchase authority totaling \$641,555. Department of Finance procedure 06:04:04 also requires the use of purchase orders for all purchases.

MCF-SCR officials have allowed employees to verbally order small purchases from local drug, hardware, and automobile vendors without the use of written purchase orders. The volume of these transactions has increased because many supplies are no longer stocked at the facility.

During our audit, we tested a random sample of disbursements and found over one-half of the items (36 items totaling \$2,417) in our sample of 59 were not supported by written purchase orders. Most large purchases were supported by sufficient documentation. However, it was sometimes difficult on small purchases to determine who made the actual purchase and whether the merchandise was actually received. We believe these practices are inappropriate, because unauthorized purchases could be made and goods could be diverted for personal use. Errors and irregularities also are more difficult to detect when purchasing is performed without written approval.

Minn. Stat. Section 15.191 authorizes imprest cash funds for the purpose of making minor disbursements. The facility personnel generally have not used this method, but have followed the practice of charging all small purchases and generating state warrants processed through the statewide accounting system. MCF-SCR maintains a current expense imprest cash fund of \$1,000 (with \$5 of petty cash on hand for change for visitor meal ticket purchases), but this fund has been used only on a limited basis. MCF-SCR Policy 0207 limits expenditure prepayment or immediate payment to items under \$5, subject to prior approval from the department head. This policy could be revised to permit wider application, so that minor purchases could be made in cash and reimbursed through the petty cash account without a written purchase order.

We also noted that three delegation of authority forms (SC-00193-01) were outdated, because they were not signed by the new superintendent. These forms show the employees authorized to sign various processing documents and are to be filed with the Secretary of State on a current basis.

MINNESOTA CORRECTIONAL FACILITY - SAUK CENTRE

RECOMMENDATIONS:

1. *Department purchase orders or department field purchase orders should be prepared when making local purchases. Minor purchases should be made by employees and reimbursed through the petty cash account with sufficient documentation.*
2. *Delegation of authority forms should be updated and filed with the Secretary of State.*

Written approvals for overtime were not prepared in advance and the standard state overtime forms were not used when overtime was worked.

Overtime pay for the fiscal year ended June 30, 1985 totaled \$105,483. In all instances where overtime was worked, we found there was no advance approval in writing and Request for Leave and Overtime forms (Form SF-00011-01) were not used when overtime was worked. However, a work schedule was used to document hours worked including overtime hours. Most DOC facilities use the overtime request form in controlling overtime, so MCF-SCR procedures are not consistent with department policy.

According to Department of Finance Operating Policy and Procedure 07:04:22, written approval should be obtained prior to an employee's working overtime. After the employee works the overtime, the hours are to be reported on a Request for Leave and Overtime form and also on the Biweekly Time Report.

RECOMMENDATION:

3. *To ensure that all overtime worked has been properly authorized and reported:*
 - *whenever possible, written requests for overtime should be prepared and approved by a supervisor prior to working overtime, and*
 - *some type of evidence, such as the Request for Leave and Overtime forms, should be completed for all overtime worked.*

July 16, 1986

Warren Bartz, Audit Manager
Office Of The Legislative Auditor
Veterans Service Building
St. Paul, Minnesota 55155

Dear Mr. Bartz:

I am enclosing a copy of your draft audit report on which I have indicated suggested corrections.

Our response to the three recommendations contained in the draft audit report are as follows:

Recommendation No. 1

Within 30 days we will implement the use of the Division of Procurement Department Field Purchase Order, PR-00035-04 559SA (6/83), when making local purchases. MCF-SCR Policy/Procedure 0207, Petty (Imprest) Cash Funds, and Policy/Procedure 0208, Purchasing, will be revised to reflect the new procedures. Loren Williams, Business Manager, will be responsible for the policy revision and implementation.

Recommendation No. 2

Within 30 days, updated delegation of authority forms will be filed with the Secretary of State. Alan Walz, Accounting Supervisor, will coordinate this effort.

Recommendation No. 3

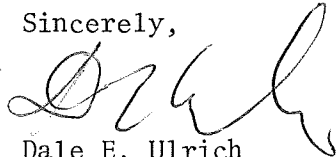
Within 30 days, MCF-SCR Policy/Procedure 0319, Payroll and Leave Request Procedures will be revised to require documentation of supervisory approval of all overtime worked through use of Request For Leave And Overtime form SF-0001-01. Dale Ulrich, Superintendent, will be responsible for this revision and implementation.

Though we will comply with all three recommendations, we would like to register an exception in the case of Recommendation No. 3. As we stated at the Exit Conference, because of our type of operation, nearly all overtime is ordered rather than requested and approval in writing will be after the fact. We already document written approval after the fact on the Bi-Weekly Time Report. The use of the Request For Leave And Overtime form is redundant. It means more paperwork, more paper to store, and doesn't accomplish anything that is not already accomplished by the Supervisor's signature on the Bi-Weekly Time Report. Were employees indeed requesting permission in advance to work overtime there would be some merit to this recommendation.

Warren Bartz
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July 16, 1986

Thank you for the opportunity to respond to the audit report draft. Your staff operated in a very professional manner while here and though we took exception to some of their suggestions, it was a pleasure to have them "on board" for a short while.

Sincerely,

A handwritten signature in cursive script, appearing to read 'D. Ulrich', written in dark ink.

Dale E. Ulrich
Superintendent

DEU:am