

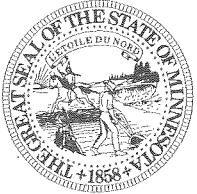
**DEPARTMENT OF HUMAN SERVICES
WILLMAR REGIONAL TREATMENT CENTER
FINANCIAL AND COMPLIANCE AUDIT
FOR THE THREE YEARS ENDED JUNE 30, 1986**

AUGUST 1987

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

87-32

Veterans Service Building, Saint Paul, Minnesota 55155 • 612/296-4708



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

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JAMES R. NOBLES, LEGISLATIVE AUDITOR

Representative Phillip J. Riveness, Chairman
Legislative Audit Commission

Members of the Legislative Audit Commission

Ms. Sandra Gardebring, Commissioner
Department of Human Services

Mr. Gregory Spartz, Chief Executive Officer
Willmar Regional Treatment Center

Audit Scope

We have completed a financial and compliance audit of the Willmar Regional Treatment Center for the three years ended June 30, 1986. Section I provides a brief description of the Willmar Regional Treatment 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 under the circumstances. Field work was completed on May 29, 1987.

The objectives of the audit were to:

- study and evaluate major Willmar Regional Treatment Center (center) internal control systems, including review of employee and resident payroll, inventories, administrative disbursements, social welfare accounts and the canteen;
- 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 246 and 252, and other finance-related laws and regulations; and
- determine status of prior audit recommendations.

Management Responsibilities

The management of Willmar Regional Treatment Center 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.

Representative Phillip J. Riveness, Chairman
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Because of inherent limitations of 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 the center 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 the center. The purpose of our testing of transactions was to obtain reasonable assurance that the center 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 1-6 in Section II of this report, the Willmar Regional Treatment Center's system of internal accounting control in effect on May 29, 1987, 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, the Willmar Regional Treatment Center properly recorded, in all material respects, its financial transactions in the statewide accounting system.

In our opinion the Willmar Regional Treatment Center administered its programs in compliance, in all material respects, with applicable finance-related laws and regulations.

Section II of this report contains our recommendations developed during this audit. The findings and recommendations are presented to assist you in improving accounting procedures and controls. We will be monitoring and reviewing your progress on implementing these recommendations in the near future.

Section III of this report includes a summary of the progress on all recommendations developed during our fiscal year 1982 audit, dated July 29, 1983. The six prior audit recommendations were implemented.

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


James R. Nobles
Legislative Auditor

July 24, 1987


John Asmussen, CPA
Deputy Legislative Auditor

WILLMAR REGIONAL TREATMENT CENTER

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AUDIT PARTICIPATION

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

John Asmussen, CPA	Deputy Legislative Auditor
Renee Redmer	Audit Manager
Charles Gill	Auditor-in-Charge
Sonya Hill	Staff Auditor
Mary G. Lentsch	Staff Auditor

EXIT CONFERENCE

The findings and recommendations in this report were discussed with the following staff of the Willmar Regional Treatment Center on May 29, 1987:

Gregory Spartz	Chief Executive Officer
Wayne Nelson	Assistant Administrator
Steve Grams	Business Manager
Carley Braband	Business Office
Nancy Kulseth	Payroll/Personnel

WILLMAR REGIONAL TREATMENT CENTER

INTRODUCTION

The Willmar Regional Treatment Center (center) serves mentally ill (MI), mentally retarded (MR), and chemically dependent (CD) individuals from a 23 county area of southwestern Minnesota. The facility also has an adolescent treatment unit (ATU) that serves emotionally disturbed adolescents from the state.

The center is under the general management of the Commissioner of Human Services and under the direct supervision of the chief executive officer, Gregory Spartz. As of April 1987, the total number of staff serving the facility was 726. The average resident population for fiscal years 1984-1986 is shown below:

<u>Fiscal Year</u>	<u>Average Resident Population</u>				
	<u>MI</u>	<u>CD</u>	<u>MR</u>	<u>ATU</u>	<u>Total</u>
1984	253	103	154	42	552
1985	250	96	157	40	537
1986	254	84	133	39	510

The center is financed mainly by General Fund appropriations made directly to the Department of Human Services. Human Services is responsible for maintaining, controlling and transferring the necessary funds to the appropriate center accounts. For fiscal years 1984, 1985, and 1986, cash basis disbursements are summarized below:

	<u>1984</u>	<u>1985</u>	<u>1986</u>
Personnel	\$15,601,229	\$16,084,958	\$17,195,733
Current Expense	1,485,468	1,632,596	1,579,699
Repairs and Betterments	107,287	103,523	103,416
Special Expense	<u>49,041</u>	<u>34,116</u>	<u>79,966</u>
 TOTAL DISBURSEMENTS	<u>\$17,243,025</u>	<u>\$17,855,193</u>	<u>\$18,958,814</u>

WILLMAR REGIONAL TREATMENT CENTER

II. CURRENT FINDINGS AND RECOMMENDATIONS

Payments are made to vendors from the social welfare and current expense contingent funds rather than processed through the statewide accounting (SWA) system.

The Willmar Regional Treatment Center has contingent funds to pay social welfare and current operating expenses. The authorized balances are \$11,000 and \$1,000, respectively. The contingent funds were established by Minn. Stat. Sections 246.15, Subd. 1, and 246.21 for nonroutine or emergency expenses, and for expenses requiring immediate payment to prevent loss or danger to the institution or its residents. The funds are also for paying freight, purchasing produce and other commodities requiring cash settlement, and for discounting bills incurred.

Contingent fund payments have not been restricted to nonroutine and emergency expenses. Certain vendors and expense types are being routinely paid by contingent fund check rather than processed through state procedures and paid directly by the Department of Finance. Examples are a \$600 payment from the current expense contingent fund to a medical provider for nonemergency services, and quarterly payments of \$695 from the social welfare contingent fund for publications. A contract should have been established for the medical services in accordance with the Department of Administration Policy and Procedures ADM-188. Contracts are required for professional and technical services paid annually to a vendor exceeding \$500. The publications should have been paid directly by the SWA system.

The contingent funds are reimbursed periodically from appropriated funds in the SWA system. At the time of reimbursement from SWA, the accompanying vouchers are not subjected to the same administrative controls which are in effect for disbursements made directly through the SWA system. There are no procedures for the contingent funds which assure that the same internal controls which are in effect for SWA system expenditures, such as contract administration guidelines, competitive bidding, and local purchase authority are not bypassed.

RECOMMENDATION:

1. Payments from the contingent funds should be limited to those expenses established in Minn. Stat. Sections 246.15, Subd. 1, and 246.21.

Internal controls over canteen operations need improvement.

The Willmar Regional Treatment Center operates a canteen for residents. Eight employees work in the canteen including five cashiers. The canteen sells food, tobacco products, and other items to the residents. For fiscal years 1984, 1985, and 1986, canteen sales were \$196,807, \$183,733, and \$189,311 and the profits were approximately \$50,473, \$51,282, and \$56,887, respectively. The profits of the canteen are to be used specifically for the benefit of the residents.

WILLMAR REGIONAL TREATMENT CENTER

The canteen has several weaknesses in the current internal control system. First, the custody of the candy, confectionery items and tobacco products is highly concentrated within the cashiers. The cashiers are involved with both the purchasing and receiving of the canteen goods. Since perpetual inventory records are not maintained and related physical counts are not conducted to control the purchase and usage of the goods, it is important that alternate controls be established in the canteen. Controls would be enhanced if the employees involved in the purchasing of the goods are independent from the staff receiving the goods and checking the orders. Separating the ordering and receiving functions provides an independent check of the goods purchased and decreases the potential for unauthorized purchases and usage of the canteen inventory.

Voided cash register transactions are not consistently documented nor properly retained. A voided cash register transaction arises when a sale is entered incorrectly, deleted, and then re-entered correctly. To provide a good system of internal control, voided transactions should be documented showing who made the void and the dollar amount involved. The canteen cashiers do not always document when a void has occurred and when a void slip is completed it is subsequently discarded by the business office employee who closes out the cash register at the end of the day. Records show that the cash register change fund is frequently over/short and this may be the result of incorrectly entered items but this could not be determined since documentation supporting voided transactions was not on file.

A soft drink bottling company provides the soda fountain equipment and pop used in the canteen; however, there is no written agreement between the center and the bottling company. In 1986, \$5,616 was paid to the company. A contract should be established with the company to eliminate any confusion or misunderstanding which may arise concerning each parties rights and responsibilities. A contract would also establish who has liability for any damaged or stolen equipment.

Various food items are purchased locally without the use of purchase orders. The center employee who picks up the goods receives an invoice indicating the items purchased and the total amount to be paid; these invoices are then turned into the business office for payment. The Department of Administration establishes requirements which allow local purchase authority for agencies to directly purchase certain supplies from a vendor. When making purchases under local purchase authority, state agencies are required to prepare beforehand a department purchase order or field purchase order. If these regulations are not adhered to, the possibility of unauthorized purchases increases.

RECOMMENDATION:

2. The center should assign the purchasing and receiving functions to different employees to increase control over canteen goods purchased and used.

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3. Canteen cashiers should retain all cash register voids.
4. The center should formalize in writing the agreement between the canteen and the soft drink company.
5. Purchase orders should be used by the center for purchases made locally.

There is an error in the computer program used to calculate the interest distribution to the client accounts.

Interest is distributed to client accounts once every six months. The interest distribution is based on a computer calculation of the Average Daily Balance (ADB) for the six month period. The rate used to distribute the interest to the accounts is based on the total of all the ADBs. For the six months ending March 31, 1987, \$6,317 of interest was distributed to 567 client accounts.

Several accounts showed negative ADBs on March 31, 1987. We recalculated the ADBs for two of the accounts that had negative ADBs of \$141.53 and \$84.31. The correct ADB for these accounts should have been a positive \$14.46 and \$12.00, respectively. The computer program malfunctions when it encounters a negative daily balance in an account that has several transactions during a day, culminating with a positive balance. Accounts with negative balances did not receive any interest. Although the interest that should have been allocated to the two accounts reviewed was nominal, the potential exists for larger erroneous distributions.

RECOMMENDATION:

6. The center should seek to have the error in the interest calculating computer program corrected and should review the computer generated output for accuracy.

WILLMAR REGIONAL TREATMENT CENTER

III. STATUS OF PRIOR AUDIT RECOMMENDATIONS
AND
PROGRESS TOWARD IMPLEMENTATION

Internal control over the withdrawal of residents' money is inadequate.

1. The cash list request form should be revised to require two signatures to authorize the request for the withdrawal of residents' money. One of these signatures should be that of a supervisor. The business office should have a listing of the supervisors authorized to approve withdrawal of residents' money.
2. A record should be kept by the business office of all the cash lists processed. When a completed cash list is returned to the business office, it should be checked off. The business office should follow up on any list outstanding for an unreasonable length of time.

RECOMMENDATIONS IMPLEMENTED: The cash list request form was revised in May 1983 which requires two signatures; the supervisor and a staff member. The business office also verifies that all cash lists are returned.

Employees' personal checks are cashed using petty cash funds.

3. The business office should discontinue the practice of cashing employee checks from petty cash funds.

RECOMMENDATION IMPLEMENTED: The use of petty cash funds was discontinued.

Dietary employees receive free meals on a regular basis.

4. The current practice of providing free meals to dietary employees should be discontinued.

RECOMMENDATION IMPLEMENTED: Free meals are no longer provided to dietary employees according to a policy established on April 5, 1983.

Internal controls over food inventories are not adequate.

5. The actual food usage, determined through weekly inventories, should be reconciled to the amounts requisitioned on the week's menu. Any discrepancies should be investigated and documented. The reconciliation should be performed by someone who is independent of food ordering and usage.

RECOMMENDATION IMPLEMENTED: Currently records are maintained documenting food ordered and used. The person who prepares these worksheets is independent of the ordering and usage functions.

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Employee time sheets are not adequately reviewed and authorized.

6. Time sheets should be prepared and signed by each employee, and reviewed and authorized for payment by the employee's supervisor.

RECOMMENDATION IMPLEMENTED: All payroll items tested were documented by time sheets. Time sheets were signed by both the employee and supervisor.



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WILLMAR REGIONAL TREATMENT CENTER
WILLMAR, MINNESOTA

TELEPHONE: 612-231-5100

July 24, 1987

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

Dear Ms. Redmer:

Thank you for the copy of the audit report. We were very pleased to have the team of Auditors here at the Willmar Regional Treatment Center. They conducted themselves professionally and all the staff at the Center enjoyed their pleasant manner.

In response to the audit recommendations, we appreciate your comments on the findings. August 3, 1987, is the formal date we will be implementing your recommendations. Some of the recommendations have already been in place since your team was here.

I will highlight each recommendation and what we've done to implement it.

Payments made to vendors from social welfare and current expense contingent fund checking accounts.

We will be scrutinizing all payments made from these checking accounts. The payments will be limited to those that are unique and non reoccurring. I have implemented this procedure and will review all payments.

Internal controls over Canteen operations.

1. Purchasing and receiving: I have discussed this situation with our Canteen Manager and the purchasing and receiving of goods will be separated among four individuals. The Canteen Manager will review all orders and receiving documents before they are submitted to the Business Office.
2. Cash register voids: All voids will be documented by a transaction number, date, amount and initialed by operator. The Business Office will input the voids in the cash register so they will appear on the summary tape for a permanent record. Canteen Manager and myself have implemented.

Ms. Renee C. Redmer
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Cont. - Internal controls over Canteen operations.

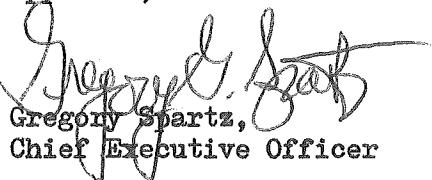
3. Written soft drink agreement: This agreement is being established. The Canteen Manager and myself have drafted this document for approval by the company.
4. Local purchases: The Canteen Manager and I have discussed this situation. We will now require Local Field Orders for all coffee shop purchases. We started this policy July 20, 1987, and I will monitor all purchases.

Interest calculation for client moneys.

We have found that the negative Average Daily Balance (ADB) was due to the sequence in which the data was entered. (disbursements/receipts) We have reversed this order and now the receipts are posted before the withdrawals. Our computer programmer has assured me this will prevent any further negative ADB.

If you have any questions after reviewing the manner in which I will be implementing your recommendations, please feel free to contact me.

Approved,



Gregory Spartz,
Chief Executive Officer

GGS/SG/cs

cc: Wayne Nelson