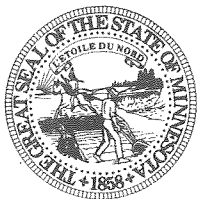


**MINNESOTA SENTENCING GUIDELINES COMMISSION
FINANCIAL AND COMPLIANCE AUDIT
FOR THE FIVE YEARS ENDED JUNE 30, 1987**

JULY 1988

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



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

Mr. Daniel Cain, Chairman
Minnesota Sentencing Guidelines Commission

Ms. Debra Dailey, Director
Minnesota Sentencing Guidelines Commission

Audit Scope

We have completed a financial and compliance audit of the Minnesota Sentencing Guidelines Commission for the five years ended June 30, 1987. Section I provides a brief description of the Minnesota Sentencing Guidelines Commission'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 under the circumstances. Field work was completed on April 15, 1988.

The objectives of the audit were to:

- study and evaluate major Minnesota Sentencing Guidelines Commission internal control systems, including 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 Minn. Stat. Section 244.09, and other finance-related laws and regulations; and
- determine status of prior audit recommendations.

Management Responsibilities

The management of the Minnesota Sentencing Guidelines Commission is responsible for establishing and maintaining a system of internal accounting control. The Department of Corrections provided administrative support for the Commission by performing all accounting, purchasing, and payroll processing functions, after review and approval by Sentencing Guidelines

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staff. However, the Minnesota Sentencing Guidelines Commission is ultimately responsible for its financial operations. 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.

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 Commission 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 Commission. The purpose of our testing of transactions was to obtain reasonable assurance that the Minnesota Sentencing Guidelines Commission had, in all material respects, administered their 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 agency staff, analytical reviews to identify unusual transactions or trends, and the examination of documentation supporting a representative number of transactions. Judgmental sampling techniques were used to assure that representative samples of transactions were chosen. However, the use of judgmental 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, findings 1-2, the Minnesota Sentencing Guidelines Commission's system of internal accounting control in effect on January 29, 1988, 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.

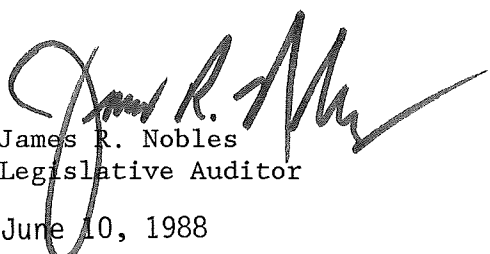
In our opinion, for the five years ended June 30, 1987, and the current fiscal year through January 29, 1988, the Minnesota Sentencing Guidelines Commission properly recorded, in all material respects, its financial transactions on the statewide accounting system.

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In our opinion, for the five years ended June 30, 1987, and the current fiscal year through January 29, 1988, the Minnesota Sentencing Guidelines Commission administered its programs in compliance, in all material respects, with applicable finance-related laws and regulations.

Section II of this report contains the findings we developed during this audit. The recommendations are presented to assist you in resolving the audit findings and in improving accounting procedures and controls. We will be monitoring and reviewing your progress on resolving these findings 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 Commission for the two years ending June 30, 1982. (Report dated August 1983.)

We would like to thank the Minnesota Sentencing Guidelines Commission and the Department of Corrections staff for their cooperation during this audit.



James R. Nobles
Legislative Auditor

June 10, 1988



John Asmussen, CPA
Deputy Legislative Auditor

MINNESOTA SENTENCING GUIDELINES COMMISSION

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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
Warren Bartz, CPA	Audit Manager
John Wicklund	Auditor-in-Charge

EXIT CONFERENCE

The findings and recommendations in this report were discussed with the following persons at an exit conference on April 21, 1988:

Debra Dailey, Director, Minnesota Sentencing Guidelines Commission
Mary Kahnke, Accounting Technician, Department of Corrections

MINNESOTA SENTENCING GUIDELINES COMMISSION

I. INTRODUCTION

The Minnesota Sentencing Guidelines Commission was created by Minnesota Laws 1978, Chapter 723, Article I, Section 9. The purpose of the Commission is to reduce sentencing disparity and to establish a coordinated policy in sentencing convicted felons in the state. These standards, as promulgated by the Commission, are set by using two main factors: the severity level of the offense of conviction, and the criminal history of the offender. Judges imposing sentences outside of these standards must justify the deviation in writing. The guidelines also serve as an aid in developing a more rational use of existing correctional resources.

The Commission consists of 11 members representing both the criminal justice system and the public, including a justice of the Supreme Court, two district court judges and one judge of the Court of Appeals as appointed by the Chief Justice of the Supreme Court, a prosecutor, a defender, the Commissioner of Corrections, and two citizens appointed by the Governor. Guidelines were first submitted to the Legislature on January 1, 1980, and became effective May 1, 1980. The Commission conducts ongoing research regarding sentencing guidelines and other matters relating to the improvement of the criminal justice system. By January 1 of each year, the Commission is required to submit a written report to the Legislature explaining all modifications that are being submitted for legislative consideration during the current year.

The funding for the Minnesota Sentencing Guidelines Commission is provided by a General Fund appropriation. Other activities have been funded from both federal and private sources. In fiscal year 1982, the Commission received a gift from a private foundation to conduct a three year program evaluation and impact study of the sentencing guidelines on the Minnesota criminal justice system. The final report was issued in September 1984. In fiscal year 1986, the Commission accepted a federal subgrant from the Virginia Polytechnic Institute to gather data for the preparation of the Institute's report assessing the impact the guidelines have had in Minnesota. In both instances, temporary employees were hired to assist in the accumulation of criminal data necessary for the study.

The Commission staff currently consists of four full-time employees with offices in the State Office Building. Accounting services are provided by the Department of Corrections. Expenditures of the Commission for the years ended June 30, 1986 and 1987 are as follows:

	<u>Year Ended June 30</u>	
	<u>1986</u>	<u>1987</u>
Personal services	\$157,386	\$139,441
Rents, leases	9,424	8,193
Data processing	26,645	35,497
Supplies and equipment	2,242	20,356
Other administrative expenditures	<u>14,041</u>	<u>11,648</u>
Totals	<u>\$209,740</u>	<u>\$215,137</u>

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II. CURRENT FINDINGS AND RECOMMENDATIONS

1. Receipts in the federal account were not used to reimburse the General Fund for expenditures incurred in performance of federal subgrant activity.

In October 1985, the Minnesota Sentencing Guidelines Commission entered into a contract with the Virginia Polytechnic Institute (VPI) to collect and code data on a sample of 1,800 felony cases processed in Minnesota during 1984. VPI had been awarded a National Institute of Justice grant for an "Evaluation of the Minnesota Determinate Sentencing System," and VPI subcontracted with the Commission to perform these data collection and reporting services. The subgrant agreement, not to exceed \$61,076, stated all receipts of subgrant money would be paid on a cost reimbursement basis; consequently, the General Fund was used to initially pay for the grant-related expenditures. As federal subgrant money was received, adjusting entries were prepared on the statewide accounting system to recode these expenditures to the federal account. The Legislative Advisory Committee (LAC) approved the receipt of this grant, provided that a sufficient amount of federal funds be reserved to pay any unemployment claims filed by temporary employees.

The Commission hired five temporary employees to assist in this effort. In addition three permanent Commission employees worked on the project and showed their grant activity time on their biweekly timesheets. Expenditures requested for reimbursement under this grant were:

Paid from General Fund:

Allocated Permanent Commission Employees	
Salaries and Fringe Benefits	\$15,754

Paid from Federal Fund:

Temporary Employees Salaries and	
Fringe Benefits	35,649
Data Processing	4,062
Other Administrative Expenditures	<u>4,662</u>
Total Requested for Reimbursement	\$60,127

Unemployment benefits subsequently paid from	
the Federal Fund	<u>4,985</u>

Total Cost of Project	<u>\$65,112</u>
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Subgrant receipts associated with the salaries and fringe benefits of permanent Commission employees working on this federal activity, were not used to reimburse the General Fund for salaries and fringes of \$15,754 previously paid. Although the General Fund should have been reimbursed, these funds were retained in the Federal Fund as a means to finance unemployment claims. Only two of five temporary employees filed unemployment claims upon termination. Discussions with staff of the Department of Corrections, the fiscal agent for the Commission, confirmed that all potential liability associated with this grant is now discharged due to lapse of time. Since unemployment benefits of \$4,985 were far less than expected, a residual balance remains within the Federal Fund as follows:

Unreimbursed General Fund Expenditures	\$15,754
Unemployment Benefits paid from Federal Fund for Temporary Employees	<u>4,985</u>
Balance in Federal Fund to reimburse General Fund for Allocated Salaries	<u>\$10,769</u>

The intention seems to have been to reserve only enough in the Federal Fund to pay unemployment costs. It seems that the remaining balance would most appropriately be used to reimburse the General Fund for the allocated salaries of permanent Commission employees. We acknowledge that Minn. Stat. Section 16A.25, Subdivision 5 states that federal money does not cancel. However, we do not consider the balance of \$10,769 to be federal money since it should have been used to reimburse the General Fund. In fact the Commission spent nearly \$5,000 more on this project than was received from the federal government, demonstrating that the original federal money has been spent.

RECOMMENDATION

- Money within the Federal Fund should be cancelled to the General Fund.
2. Controls used in reviewing data processing invoices for compliance with contract prices could be improved.

The Minnesota Sentencing Guidelines Commission (MSGC) conducts ongoing studies regarding the effectiveness of the sentencing guidelines in meeting predetermined objectives. These studies dictate the need for gathering, sorting, and interpreting criminal case data for which recommendations can be made to the Legislature in improving the system.

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Data processing costs accounted for approximately 13 percent of Commission expenditures, or \$125,288, during the five years tested. Some of these costs were paid to the Department of Administration's Information Management Bureau (IMB) to key data onto magnetic tapes and disks. However, the majority of the expenditures were to the University of Minnesota where data processing techniques produce specially sorted reports for the Commission to assess proposed changes in the guidelines.

The Commission takes advantage of an M-Contract which the state has entered with the University of Minnesota. Under this agreement, state agencies with the approval of IMB, can have data processing performed on the university's mainframe computer. Monthly billings are received from the university and reviewed by the Commission staff before being paid. The staff has on-line capability of accessing current services being performed and the charges associated with them. In this way, periodic inquiries assist Commission staff in assessing the propriety of the quantity of the various services used and billed to them. However, unit costs of each of the services are determined by the contract agreement. Neither the Commission nor the Department of Corrections, which completes the payment, obtained a copy of the agreement showing the unit cost of the various services covered by the contract. Periodic review of invoices to the contract terms would provide additional assurance that billings for these data processing services are accurate.

Also, the M-Contract with the University of Minnesota was not renewed after it expired June 30, 1987. Despite the fact that a new contract was not in place, approximately 30 state agencies, including the Commission, have requested and paid for data processing services since that time. Billings to state agencies from the university for these services from July 1987 through March 1988 are approximately \$400,000. Department of Administration's Contract Management Division and Information Management Bureau are currently negotiating with the university for a renewal of this agreement.

RECOMMENDATION

- Invoices for data processing should be periodically compared to contract prices to evaluate the accuracy of the billing.

MINNESOTA SENTENCING GUIDELINES COMMISSION

III. STATUS OF PRIOR AUDIT RECOMMENDATIONS
AND
PROGRESS TOWARD IMPLEMENTATION

1. The Commission should formally establish the guidelines, policies, and procedures it will follow when carrying out its responsibilities, including any times it may deviate.

RECOMMENDATION IMPLEMENTED: On April 18, 1985, the Commission formally approved administrative rules and procedures to follow in its general operations.

2. The Commission staff should attach to all invoices a receiving report or packing slip signed by the individual receiving the materials. All invoices should be signed by the individual authorized to review them and approve them for payment.

RECOMMENDATION IMPLEMENTED: Since 1983, the administrative secretary for the Commission has signed packing slips or invoices indicating receipt of the item(s) ordered. The Director of the Commission also reviews all invoices and initials them for payment.

3. When adjustments that are not automatically made at the Central Payroll Division are included on the biweekly payroll, they should be reconciled to the payroll posting audit trail to verify accuracy.

RECOMMENDATION IMPLEMENTED: Since 1984, the payroll clerk at the Department of Corrections, who processes payroll for the Commission, reviews the posting accuracy of Commission payroll transactions to biweekly Central Payroll reports.

4. All employees should prepare a request for leave and overtime form when liquidating any leave or when requesting approval for overtime work.

RECOMMENDATION IMPLEMENTED: All Commission employees, except the Director, complete leave/overtime request forms for any leave to be used or overtime earned. The Director does not complete these forms since she does not have an immediate supervisor involved with the daily activities of the office.

Mr. Warren Bartz
Audit Manager
Office of the Legislative Auditor
Veterans Service Building
St. Paul, MN 55155

June 10, 1988

Dear Mr. Bartz,

Thank you for the opportunity to respond to your draft report regarding the results of the audit work you have completed for the Sentencing Guidelines Commission. We have responded to each recommendation individually below.

RECOMMENDATION:

1. Money within the Federal Fund should be cancelled to the General Fund.

The Commission is troubled by this recommendation as there does not appear to be any statutory provision that clearly authorizes the cancellation and transfer of these funds. We had operated under the understanding that these were Federal dollars and had worked out arrangements with accounting officers as well as our Executive Budget Officer (who are all employees of the Department of Corrections) to use this fund for the purpose of meeting unemployment obligations. We had also questioned our Executive Budget Officer what would happen to these Federal dollars once unemployment obligations had been met and it was our understanding that these funds could be used by the agency to upgrade our data processing system. The Sentencing Guidelines Commission had planned for this computer upgrade and had waited to expend these Federal dollars until a more prudent time when the technology was adequately developed to meet our needs and the cost for the necessary computer equipment had been reduced. As the price of the necessary computer equipment is now competitive and the technology has been advanced to meet our requirements, the effect of cancelling these dollars to the General Fund is at least a year's delay in the upgrade of our data processing systems due to the need to now request that the legislature provide additional monies to our 1989-90 biennium budget.

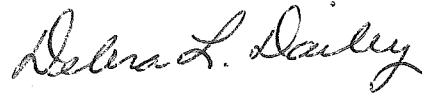
While we are troubled by this recommendation for the reasons cited above, it is our understanding at this time that there is also no statutory provision that clearly allows the Commission to expend these dollars. The lack of clear statutory authority to expend these dollars and the current position of the Department of Finance and your draft audit report suggests that we must agree to implement this recommendation. Our Executive Budget Officer and our accounting officer (who are employees of the Department of Corrections) will make the necessary arrangements to cancel this Federal Fund to the General Fund as soon as possible.

RECOMMENDATION:

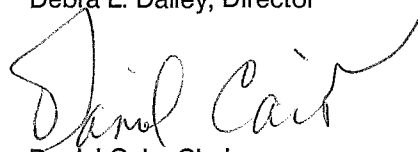
2. Invoices for data processing should be periodically compared to contract prices to evaluate the accuracy of the billing.

The Commission Executive / employee will obtain a copy of the University of Minnesota M-Contract each year upon renewal. The Research Analysis Specialist will periodically compare data processing costs with the contract prices.

Sincerely,

A handwritten signature in cursive script that reads "Debra L. Dailey".

Debra L. Dailey, Director

A handwritten signature in cursive script that reads "Daniel Cain".

Daniel Cain, Chairman