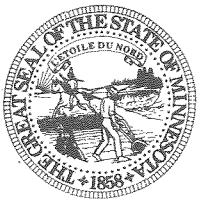


**DEPARTMENT OF CORRECTIONS
WILLOW RIVER CAMP
FINANCIAL AND COMPLIANCE AUDIT
FOR THE FOUR YEARS ENDED JUNE 30, 1987**

SEPTEMBER 1988



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

VETERANS SERVICE BUILDING, ST. PAUL, MN 55155 • 612/296-4708

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Representative Phillip J. Riveness, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. Orville B. Pung, Commissioner
Department of Corrections

Mr. Gothriel LaFleur, Superintendent
Willow River Camp

Audit Scope

We have completed a financial and compliance audit of the Willow River Camp (WRC) for the four fiscal years ended June 30, 1987. Section I provides a brief description of WRC'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 Audits 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 June 3, 1988.

The objectives of the audit were to:

- study and evaluate WRC internal control systems, including revenues, expenses, assets, liabilities, payroll (employee and inmate), industries and social welfare accounts;
- verify that financial transactions were properly recorded on 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 WRC 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 costs of control procedures. The objectives of a control system are to provide management with a 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 the 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 the procedures may become inadequate because of the changes in conditions, or that the degree of compliance with the procedures may deteriorate.

The management of WRC 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 WRC. The purpose of our testing transactions was to obtain reasonable assurance 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 WRC 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, findings 1-13, the WRC's system of internal accounting control in effect on May 31, 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 four years ended June 30, 1987, WRC properly recorded, in all material respects, its financial transactions in the statewide accounting system.

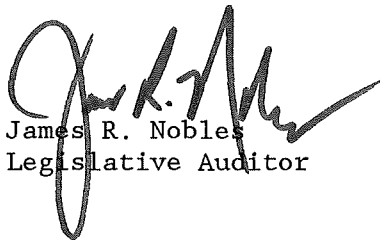
In our opinion, except for the issues discussed in section II, finding 14, for the four years ended June 30, 1987, WRC administered its programs in compliance, in all material respects, with applicable finance-related laws and regulations.

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

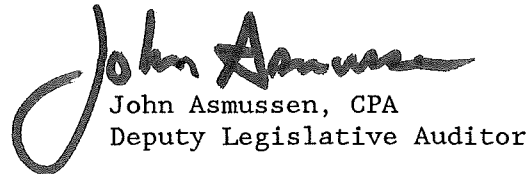
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will be monitoring and reviewing your progress on resolving these findings after the dates projected for completion as identified in the response to this report. Section III includes a summary of the progress on all recommendations developed during our audit of WRC for the period July 1, 1982 to June 30, 1983 (report dated May 1984).

We would like to thank the Willow River Camp staff for their cooperation during this audit.



James R. Nobles
Legislative Auditor



John Asmussen, CPA
Deputy Legislative Auditor

September 8, 1988

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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
David Poliseno	Auditor-in-Charge
Mary Lentsch	Staff Auditor
Chris Buse	Staff Auditor

EXIT CONFERENCE

The findings and recommendations in this report were discussed with the following staff on June 7, 1988:

Willow River Camp

Gothriel LaFleur	WRC Superintendent
Diane Jacobson	WRC Business Manager

Department of Corrections

Howard Costello	Deputy Commissioner, Institution Services
Jim Zellmer	Institutional Support Services Director
Shirley Flekke	Fiscal Services Director
Peter Maurer	Accounting Director-Facilities

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I. INTRODUCTION

Willow River Camp (WRC) is a minimum security facility for adult males which opened in 1951 as a forestry camp and which now provides a vocational/academic education to inmates transferred from the Stillwater, St. Cloud, and Lino Lakes correctional facilities. WRC has contracted with Independent School District 576 - Sandstone, to provide vocational training in truck trailer repair, machine tool operation, truck driving, welding, and auto mechanics. The vocational programs are located in Willow River, Sandstone, and Sturgeon Lake. Because most inmates are nearing their release dates, special emphasis is given to developing vocational and social skills needed in the outside community.

The camp employs approximately 40 personnel to meet the needs of its average population of 102 inmates. In April 1988, WRC increased its population by opening a facility at the Moose Lake State Hospital. Currently, 30 of the 102 inmates are housed in Moose Lake with an additional 30 inmates expected to arrive during fiscal year 1989. WRC is under the general management and control of the Commissioner of Corrections. Ralph L. Nelson held the position of superintendent of WRC from his appointment in 1963 until his retirement in 1987. Gothriel LaFleur has held the position since his appointment in July 1987.

WRC operations are primarily financed through General Fund appropriations made directly to the Department of Corrections, which is responsible for maintaining, controlling, and transferring the necessary funds to the appropriate facility accounts. Other funding sources include federal grants and social welfare receipts. Expenditures for fiscal years 1985-1987 are shown below:

	<u>1987</u>	<u>1986</u>	<u>1985</u>
<u>General Fund</u>			
Salaries	\$ 994,162	\$ 935,219	\$ 884,148
Professional/technical service contracts	262,622	274,481	231,718
Other operating expenses	280,506	326,481	328,370
Other administrative expenditures	20,415	52,597	38,424
Expenditures from other sources	<u>144,620</u>	<u>111,287</u>	<u>94,696</u>
Total Expenditures	<u>\$1,702,325</u>	<u>\$1,700,065</u>	<u>\$1,577,356</u>

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II. CURRENT FINDINGS AND RECOMMENDATIONS

Sandstone Vocational School

1. PRIOR FINDING NOT RESOLVED. Improved monitoring of the Sandstone Vocational School agreement and a feasibility study are needed.

Since 1972, Willow River Camp (WRC) has entered into an agreement with Independent School District (ISD) 576 - Sandstone, to provide six instructors for the inmate vocational programs. These programs, consisting of truck driving, welding, machine tool operation, auto mechanics, and truck trailer repair, were subsequently named the Sandstone Vocational School (SVS) to lend credibility to the inmates' efforts to find employment after their release. We see a problem with utilizing the name, because the facility is not an accredited vocational school.

The annual cost of the contract is approximately \$250,000, and is paid to ISD 576 upon submission of monthly reimbursement requests. Under provisions of the contract, WRC is required to reimburse ISD 576 for the salary of the instructors, indirect costs, and 60 percent of the rental of the building in which the welding and machine tool operation programs are located. Facilities for the truck driver and auto mechanics programs are rented directly by the camp at an annual cost of \$12,000. WRC is also responsible for providing supplies and equipment necessary for the operation of the program, currently averaging \$105,000 per year resulting in total annual program costs of \$350,000.

We were informed by personnel from WRC and the Department of Corrections (DOC) central office that the goal of the SVS program is to provide both academic and vocational training during the last months of an inmate's sentence so that they will be able to find a job upon release. In a previous audit report dated May 1984, it was recommended that a feasibility study be performed to determine if it would be more beneficial to continue the current contractual arrangement with ISD 576 or have WRC totally administer the vocational programs. To date, no feasibility study has been attempted by WRC. Since approximately \$350,000 is spent annually on the SVS program, it is imperative that a study be undertaken to determine whether the vocational programs are cost/beneficial to operate in their current form or whether alternatives should be sought. We were informed that a study is planned for fiscal year 1989 to determine if the SVS program provides a quality vocational education. The feasibility of alternative programs will also be addressed in the report.

In addition to our concerns about the effectiveness of the program, testing of the SVS contract reimbursements has identified significant weaknesses in the system of internal accounting controls. The following is a summary of the problems detected:

- Reimbursements made to ISD 576 for instructional salaries are not supported by adequate documentation. WRC is simply invoiced on a monthly basis for the total amount to be reimbursed for each

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vocational instructor. Wage rates per hour are not documented in either the SVS contract or the reimbursement requests. As a result of the lack of supporting information, during fiscal year 1987, WRC reimbursed ISD 576 for 96 percent of the salaries of two instructors who also taught high school classes. In addition, WRC reimbursed ISD 576 for the wages of instructors who were absent and for the cost of the substitute teachers needed to replace them. Each of these situations could have been detected if WRC had required timesheets to support the monthly reimbursement requests and documentation concerning rates per hour in the annual contract.

- Indirect costs paid to ISD 576 are based upon ten percent of the total salary and fringes submitted for reimbursement, even though the contract expressly states that actual indirect costs are to be presented. Since a breakdown of actual indirect costs is not requested, WRC has no method to determine if the amounts being reimbursed are reasonable. During fiscal year 1987, approximately \$22,000 of undocumented indirect costs were paid to ISD 576.
- One monthly reimbursement sent to WRC by ISD 576 contained a \$300 extension error. WRC reimbursed the school district for the full amount of the request without verifying its mathematical accuracy.

The failure to require adequate supporting documentation and to verify invoices prior to making payments allows errors or irregularities to go undetected.

All six vocational instructors are allowed to initiate purchases on behalf of the state, duties normally limited to state employees. Department of Finance procedures require authorized agency employees to approve purchase orders prior to their issuance.

RECOMMENDATIONS

- WRC and DOC staff should complete a feasibility study to determine if it would be more beneficial to continue the current contractual arrangement with ISD 576 or find alternative methods to administer the vocational programs.
- WRC should verify that contracted salary amounts are supported by the number of hours to be worked and the rates per hour. In addition, WRC should verify that reimbursement requests are supported by timesheets indicating the number of hours worked.
- WRC should require that actual indirect cost documentation be submitted for reimbursement.

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- WRC should verify the mathematical accuracy of all reimbursement requests prior to paying them. WRC should make arrangements with ISD 576 to collect the \$300 which was previously overpaid.
- WRC should require all purchase orders to be approved by WRC personnel prior to their issuance.

Social Welfare Accounts and Canteens

In accordance with Minn. Stat. Section 241.08, individual accounts are maintained by Willow River Camp (WRC) for the care and custody of all money belonging to the inmates. Each account consists of a spending account for daily spending needs and a savings account. The total inmate account balance is maintained on the statewide accounting system. In addition, there is a \$4,000 imprest cash fund used for the inmates' immediate cash needs. The imprest cash fund is maintained in a checking account at a local bank. The inmates may deposit funds received from relatives or friends into their individual accounts and are also permitted to make withdrawals from their accounts. Individual account transactions are to be posted daily to the respective accounts and daily totals of withdrawals and receipts are posted to the control ledger. We found problems in the following areas of the social welfare accounts:

- inadequate records management system;
- inadequate separation of duties;
- inadequate internal controls over some transactions;
- outstanding checks not properly investigated and written off; and
- unclaimed inmate accounts not handled in accordance with Minnesota statutes.

2. PRIOR FINDING NOT RESOLVED. Willow River Camp (WRC) maintains its social welfare system on an inadequate manual records system.

WRC maintains manual records for all of the social welfare activity. Prior to March 31, 1988, WRC had an inmate population of 72 who were located at the camp. Currently, WRC has 72 inmates located at the camp and 30 inmates at the Moose Lake Regional Treatment Center. The inmate population is soon expected to be approximately 130.

An accounting system must be intact that ensures efficient processing of all financial activity. WRC's current system is cumbersome, delays prompt postings, and allows the possibility of errors occurring and not being detected in a timely manner. Because posting is not performed daily, inmate accounts have incurred negative balances. WRC personnel indicated

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that they would like to establish the accounts on a computerized system and have contacted the DOC central office regarding this. It is especially important for WRC to automate their inmate account system now since their inmate population is continuing to increase, resulting in more recordkeeping.

RECOMMENDATION

- WRC should work with DOC central office to establish their social welfare accounts on an automated system.

3. Duties within the WRC social welfare accounting system are not adequately separated.

One person at WRC handles all social welfare accounting duties except for the monthly reconciliation to statewide accounting (SWA) records. However, the reconciliation to SWA balances does not give an independent check, because one of the balances used is provided by the clerk who handles all other social welfare accounting activities. Control over this area would be improved if the custodian of cash, for both receipts and disbursements, had no accounting responsibility. Also, the same person prepares and signs the checks.

Allowing one person to have responsibility over so many duties within a specific area, increases the risk that an error or irregularity will occur and not be detected. Separation of duties also helps to prevent errors that occur in the normal course of business by providing a review of each transaction from more than one individual.

RECOMMENDATION

- WRC should improve internal control over the social welfare accounting system by:
 - having someone independent of cash, for both receipts and disbursements, post to the inmate accounting records;
 - not allowing the same person who prepares checks to sign them; and
 - having the person who authorizes deposits reconcile the deposit memorandum to the daily cash receipts total.

4. PRIOR FINDING NOT RESOLVED. Internal control over some of Willow River Camp's social welfare transactions need improvement.

WRC does not properly account for all social welfare activity. Currently, the control account consists of individual inmate subaccounts and recreation subaccounts such as recreation, movie, and barbershop.

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However, we found that for one activity, Alcoholics Anonymous (AA), the transactions are not run through the social welfare system. Currently, the AA money is not deposited, but kept in the business manager's office. To be consistent with their current practices and to better monitor the fiscal activity of these groups, WRC needs to set up respective subaccounts.

Advances are given to inmates who do not have any money when they arrive at WRC. DOC policies allows advances through the social welfare accounts; however, the canteen is issuing and monitoring the advances given to inmates. Inmates are allowed to charge up to \$10 at the canteen and subsequently repay the canteen after their first paycheck. The canteen staff record the advances on a calculator tape with the inmate's name and if the canteen has problems collecting the money, they submit this calculator tape to the business office. This is not in compliance with DOC policies and gives poor control over cash advances.

Some social welfare transactions also were not being properly documented and approved. The expenditures out of the recreation account were not documented on a consistent basis and inmate withdrawal requests were not always authorized by the group leaders. Good internal controls require adequate records to be maintained for all financial activities. Without proper documentation, the staff cannot determine if payments were properly authorized prior to processing.

Proper controls are required to ensure that all transactions are accurate, authorized, and recorded properly. In addition, proper controls help to prevent and detect any errors and irregularities that might occur.

RECOMMENDATIONS

- All inmate activity should be set up in the social welfare accounts.
- All inmate advances should be accounted for in the social welfare accounts.
- Supporting documentation for social welfare transactions should be kept on file and be properly approved prior to processing.

5. Willow River Camp does not properly investigate and write off outstanding checks from the social welfare checking account.

WRC's social welfare disbursements are written out of a local checking account which contains the imprest cash fund money. We found some checks outstanding for more than six years. Good business practices include proper handling of outstanding checks, and typically, checks are con

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sidered void after six months. In the April 1988 bank reconciliation, WRC had \$254 of checks outstanding for more than six months, with \$100 of that amount outstanding for more than six years.

By not properly investigating and writing off outstanding checks, WRC is tying up money in the local checking account and also is creating more work for the staff.

RECOMMENDATION

- WRC should establish a policy which includes investigating and writing off social welfare checks that have been outstanding for periods longer than six months.

6. Willow River Camp does not have proper procedures for handling unclaimed and uncollectible accounts.

WRC does not have proper procedures for handling outstanding accounts. Currently, WRC has 20 accounts (some over six years old) which include both positive and negative balances. Unclaimed accounts need to be deposited for the benefit of the inmates and uncollectible accounts need to be written off in accordance with the provisions of Minnesota laws. These accounts are an additional burden on a manual system.

Minn. Stat. Section 241.09 provides that money belonging to inmates who have died, been released or escaped, that has remained unclaimed for two years, is to be deposited in the inmate social welfare account for the benefit of the inmates of that facility. Personal property that has remained unclaimed for two years, is to be sold or otherwise disposed of in the manner provided by law for the sale or disposition of state property. Any proceeds resulting from the sale of unclaimed property is also to be deposited in the inmate social welfare account for the benefit of all the inmates.

Minn. Stat. Sections 10.12 and 10.15 allow for the write-off of uncollectible accounts after the approval by the attorney general and the executive council for amounts over \$100. The commissioner has the authority to write off amounts under \$100 as uncollectible.

RECOMMENDATION

- WRC should deposit unclaimed amounts and write off uncollectible amounts as established by Minn. Stat. Sections 10.12 and 10.15 and 241.09.

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7. PRIOR FINDING NOT RESOLVED. Willow River Camp does not maintain adequate records nor prepare quarterly financial statements for their canteen operations.

Canteens are operated for the benefit of the inmates. The canteen is an integral part of the correctional facility and plays an important role with respect to inmate welfare and morale. The Department of Corrections (DOC) established policies which govern canteen operations at all correctional facilities. The policies address both the general administrative and the record maintenance aspects of operating a canteen. The policies were set up to ensure compliance with generally accepted accounting principles (GAAP) and provide some overall guidelines. For the four years ended June 30, 1987, WRC was not complying with two areas addressed in the DOC policies.

DOC policies require a double-entry accounting system to be used for canteen operations. However, WRC does not maintain proper accounting records for the canteen activities. A double-entry accounting system would assure that all accounts, subaccounts, and detail as required to record, monitor, and control the financial activities of the canteen are maintained.

Another DOC policy requires financial statements for the canteen activities to be prepared at least quarterly. WRC prepares annual financial statements, but they do not prepare quarterly reports. In addition to complying with DOC policies, the preparation of quarterly financial statements serves as an effective tool in monitoring the profit of the canteen operations.

RECOMMENDATION

- WRC should establish a double-entry accounting system for recording, monitoring, and controlling the financial activities of the canteen operations, and prepare quarterly financial statements.

8. Internal controls over the Moose Lake canteen are inadequate.

WRC operates two canteens, one for the main camp at Willow River and one for the inmates at the Moose Lake (ML) annex. The ML canteen started operations in April 1988 and had receipts during April and May 1988 of \$2,759. The ML canteen operation has the following internal control weaknesses:

- WRC is authorized to have a \$100 imprest cash fund on hand at the ML canteen. During a cash count of the change fund, we were informed by the ML canteen manager that in addition to the authorized \$100, ML received \$100 worth of stamps and \$20 cash from the WRC business office to use in the canteen operations.

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The ML canteen manager also does not deposit all the receipts, but retains a portion to have more change available for daily activity. Both of these practices indicate an unauthorized change fund which is in violation of Minn. Stat. Section 15.191. This also results in poor cash control.

- In May 1988, WRC installed an electronic cash register at the ML canteen. Approximately one month later, ML canteen personnel were not using the cash register due to inadequate training. Cash registers have controls that provide additional checks and balances for the cash operations, such as cumulative sales figures and records of transactions. To properly manage the canteen and monitor its activities, canteen personnel need to know how to operate the cash register and utilize its built-in controls. As a result, we could not verify that all receipts were deposited.

RECOMMENDATION

- WRC should develop proper internal controls at the Moose Lake canteen by:
 - maintaining only the authorized level of the change fund; and
 - providing the cash register operators with adequate training.

Other Administrative Functions

9. Willow River Camp (WRC) needs to reconcile receipts to statewide accounting (SWA) records.

WRC collects receipts from various sources, such as inmate deposits, canteen sales, meal ticket sales, and several miscellaneous areas. During fiscal years 1985, 1986, and 1987, the total receipts collected amounted to \$109,250, \$105,267, and \$132,486, respectively.

All money received should be reconciled to money actually deposited according to SWA Policies and Procedures 06:06:03. WRC performs monthly reconciliations for the inmate social welfare accounts, but not for any other receipt areas. Without these reconciliations, errors in deposits may occur and go undetected.

RECOMMENDATION

- All receipts should be reconciled monthly to the SWA receipts by deposit report or the receipts by appropriation report. Differences should be investigated and reported.

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10. Internal controls over meal ticket receipts need improvement.

Willow River Camp operates a cafeteria for the primary purpose of providing meals for the inmates. A Department of Corrections (DOC) policy allows meal tickets to be purchased by facility staff and visitors for \$1.60 each or a book of 10 for \$13.25. We found the following problems in meal ticket sales:

- One WRC staff person is responsible for the meal ticket receipts. This person collects the money, records the sales in the logbook, and writes herself a receipt for the money being deposited. In addition, no one reconciles the meal tickets sold to the amount of money deposited. Proper internal controls require an adequate separation of duties to provide a check on the work of one individual by others and to ensure that errors, either intentional or otherwise, are detected during the normal processing cycle. Procedures at WRC could be strengthened by having someone independent of the meal ticket sales issue a receipt for the money being turned in and subsequently reconciling the number of meal tickets sold to the amount of money deposited.
- Some WRC employees and visitors are allowed to purchase single meal tickets at the \$1.35 discount price instead of the \$1.60 price. This is not in compliance with DOC policy.
- Tickets or receipts are not given to individuals who purchase single meal tickets. The WRC employee who issues the meal ticket calls the cafeteria informing them that the person paid for a meal. This practice violates DOC policies, and increases the risk of theft because there is no record of the purchase.
- WRC also sells meal tickets on credit. The person responsible for the meal tickets maintains a log book listing the purchaser's name, meal ticket number, purchase price, and whether or not the person paid for the meal ticket(s). We found instances of meal tickets purchased in both January and March 1988 that were not paid for by the end of May 1988. This practice reduces the likelihood of collecting the money from the employee, either intentionally or unintentionally, and also creates unnecessary work for staff.

RECOMMENDATION

- WRC should improve controls over meal tickets by:
 - separating the sales and deposit duties;
 - selling individual meal tickets for \$1.60 and issuing a ticket for single sales; and
 - disallowing the practice of issuing meal tickets on credit.

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11. PRIOR FINDING NOT RESOLVED. Duties are not adequately segregated in the disbursement process.

WRC's 1987 nonpayroll expenditures totaled \$708,163. The business manager makes and approves local purchases, approves and pays invoices, and verifies the disbursements to SWA totals. When these incompatible functions are not segregated, there is no verification of the propriety of the payment or the transaction codings. The lack of segregation of duties also increases the risk that errors or irregularities could occur without being detected.

These duties could be segregated in many ways. For example, the superintendent or assistant superintendent could approve disbursement batches before they are entered on the SWA system. Another employee could pay invoices or input transactions on the SWA system

RECOMMENDATION

- Duties in the disbursement process should be adequately segregated so that incompatible functions are not performed by one individual.

12. WRC is not taking advantage of vendor discounts.

To encourage prompt payment by customers vendors will sometimes offer a cash discount if the invoice is paid within a relatively short time period, usually ten days. WRC is not taking advantage of these discount offers. WRC even paid an invoice within the discount period but failed to claim the discount. Failure to take discounts results in some increased costs to WRC.

RECOMMENDATION

- WRC should take advantage of available discounts by paying invoices promptly.

13. PRIOR FINDING NOT RESOLVED. Controls over the food inventory need improvement.

WRC operates a cafeteria to feed the inmates and provide meals to employees and guests. The cafeteria serves approximately 72 inmates three meals a day. The cooks utilize a seven week menu cycle to order food. We discovered the following problems with the food inventory:

- Duties are not segregated within the food service. The WRC cooks are responsible for ordering food items from the vendor, receiving and placing the food in storage, removing the items from storage, and preparing the various meals, with no independent verification of these procedures by other WRC personnel. The responsibility of an entire process assigned to a single individual or group of individuals without proper verification, does not allow for the detection of errors or irregularities should they occur.

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- The food inventory is not properly secured. The food is stored at the cafeteria in unlocked storage areas, and access to the area is not physically restricted. The cafeteria is locked when not in use, but nearly all WRC personnel have keys to the building and routinely gain entrance to conduct meetings and supervise clean-up workers. Food could be taken without ever being detected. The proper safeguarding of assets requires that all storage facilities be locked and control of the keys should be assigned to an individual who would have the responsibility to see that only authorized personnel can obtain them.

RECOMMENDATIONS

- Duties should be adequately segregated in the food service area to reduce the risk of errors or irregularities.
- WRC should ensure that only authorized individuals have access to the food inventory.

14. PRIOR FINDING NOT RESOLVED. Employees receive free services through their positions at WRC.

WRC employees receive free haircuts from an inmate barber. The inmate is trained in the field and is assigned to the work crew at WRC, the same as other inmates. WRC entered into this venture to provide free services to the inmates and eliminate all of the individual trips into local towns to allow the inmates to have their haircuts. In the process, WRC has developed a policy allowing the staff to have their haircuts free, as well.

The cooks also receive free meals when they are on a meal preparation shift. The cafeteria is operated for the primary purpose of providing meals for the inmates of the facility. Employees are allowed to eat at the cafeteria, but WRC policy 2-408 requires that all employees pay for their meals at the current rate.

Minn. Stat. Section 43A.38, Subd. 5 states that, "The following actions by an employee in the executive branch shall be deemed a conflict of interest and subject to procedures regarding resolution of the conflicts: (a) use or attempted use of the employee's official position to secure benefits, privileges, exemptions or advantages for the employee or the employee's immediate family or an organization with which the employee is associated which are different from those available to the general public." Clearly, the free services are not available to the general public and WRC should discontinue its practice.

RECOMMENDATION

- WRC should not allow employees to receive benefits such as free haircuts and meals that are not available to the general public.

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III. STATUS OF PRIOR AUDIT RECOMMENDATIONS
AND
PROGRESS TOWARD IMPLEMENTATION

The provisions of the contract for the Sandstone Vocational School need to be complied with and clarified.

1. WRC and DOC staff should complete a feasibility study, taking into consideration any additional retirement contributions and staffing requirements, to determine if it would be beneficial to continue the current contractual arrangement with ISD 576 or have WRC totally administer the vocational programs.

RECOMMENDATION NOT IMPLEMENTED. See current finding #1.

2. WRC and ISD 576 should mutually determine the proper ownership of current SVS fixed assets to ensure that all state owned property is accurately reported on SWFAIS.

RECOMMENDATION IMPLEMENTED. In July 1985, all assets at SVS locations were identified, and ownership was determined by representatives from WRC and ISD 576.

3. If the contract is to be continued, the following provisions should be clarified in the contract:
 - ownership of SVS fixed assets,
 - general administrative and operating procedures for the vocational program,
 - ownership, administrative procedures, fees charged, supplies purchased, and reporting requirements of the resale account,
 - supervision of vocational teachers, and
 - duties or employees included as "indirect costs."

RECOMMENDATION PARTIALLY IMPLEMENTED. In July 1985, the contractual terms in the current agreement were clarified except for the composition of indirect costs. See current finding #1.

4. If the contract is to be continued, WRC and DOC central office personnel should work with ISD 576 personnel to ensure all terms of the SVS contract are adhered to. If provisions of the contract appear unreasonable, the terms should be adjusted accordingly.

RECOMMENDATION NOT IMPLEMENTED. See current finding #1.

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WILLOW RIVER CAMP

Internal controls over social welfare accounts and inmate allowances require strengthening.

5. WRC personnel should establish a formal imprest cash account through Department of Finance Operating Policy and Procedure 06:06:04.

RECOMMENDATION IMPLEMENTED. In May 1984, WRC established a formal imprest cash account through the Department of Finance.

6. All social welfare accounts should be kept current and reconciled monthly to SWA balances.

RECOMMENDATION PARTIALLY IMPLEMENTED. WRC has developed and applied procedures for reconciling the social welfare accounts to SWA records on a monthly basis since July 1985. However, the social welfare accounts are still not kept current. See current finding #2.

7. All supporting documentation for each transaction in the social welfare account should be kept on file.

RECOMMENDATION NOT IMPLEMENTED. See current finding #3.

8. Inmate payroll checks should be issued to a specific payee to reduce their negotiability in case of theft.

RECOMMENDATION IMPLEMENTED. Since April 1984, all inmate payroll checks are written to a specific payee, the bank.

9. Inmate time rosters should be signed and authorized each week by a WRC employee aware of the inmates' attendance.

RECOMMENDATION WITHDRAWN. An alternate system of inmate time reporting is being used.

10. All checks received should be restrictively endorsed immediately upon receipt.

RECOMMENDATION IMPLEMENTED. Since April 1984, all checks received through the normal receipt process such as social welfare and canteen receipts are endorsed immediately.

11. WRC personnel should contact the Department of Revenue to determine the appropriate procedures to file a sales tax credit.

RECOMMENDATION IMPLEMENTED. WRC contacted the Department of Revenue, Sales Tax Division on March 31, 1984, regarding the overpayment of sales tax. The total overpayment was corrected by adjusting subsequent deposits.

DEPARTMENT OF CORRECTIONS

WILLOW RIVER CAMP

12. Formal financial statements showing canteen operations should be prepared at least quarterly.

RECOMMENDATION NOT IMPLEMENTED. See current finding #7.

Internal controls over some consumable and fixed asset inventories are not adequate.

13. WRC personnel should contact and work with the Department of Administration, Consumable Inventory Section, to evaluate and improve the current food inventory procedures and controls in effect at WRC.

RECOMMENDATION NOT IMPLEMENTED. See current finding #13.

14. The WRC gasoline pumps should remain locked at all times, and the key should be kept in the custody of one employee. WRC personnel should measure the gasoline storage tanks and reconcile the actual gas usage to the recorded gas usage at least on a monthly basis.

RECOMMENDATION IMPLEMENTED. The gasoline pumps remain locked at all times and the key is controlled by the business manager. Since the last audit in March 1984, monthly usage reconciliation reports have been prepared.

15. WRC personnel should perform the necessary procedures to ensure that all fixed asset purchases are assigned a unique asset number, affixed with a state property inventory label, and properly recorded on SWFAIS.

RECOMMENDATION IMPLEMENTED. Since March 1986, WRC affixed unique asset numbers on all assets upon arrival. Asset numbers are now engraved on many assets that are used by inmates.

16. The WRC fixed asset custodian should retain copies of all fixed asset addition forms and applicable department purchase orders as documentation of additions to SWFAIS.

RECOMMENDATION IMPLEMENTED. All fixed asset addition and deletion forms are now filed at WRC. Our testing indicated no exceptions for the audit period July 1, 1984 - March 31, 1988.

17. A schedule for fixed asset inventory spotchecks by someone independent of the recordkeeping function should be established. A report summarizing the results should be prepared each time. If the inventory spotchecks do not meet the five percent error rate criteria established in the fixed asset inventory management user's manual, a complete physical inventory should be performed in the area spotchecked.

DEPARTMENT OF CORRECTIONS

WILLOW RIVER CAMP

RECOMMENDATION WITHDRAWN. The current fixed asset record management system (FARMS) user's manual does not require spotchecks to be made by an independent person.

Internal controls over payroll and other disbursements require improvement.

- 18a. WRC personnel should segregate the responsibilities for maintaining personnel records, preparing payroll time rosters, and approving time rosters.

RECOMMENDATION IMPLEMENTED. In November 1985, three individuals became involved in maintaining personnel records, preparing time rosters, and approving time rosters. The superintendent of WRC approves all personnel forms.

- 18b. The responsibilities for preparing and approving purchase orders should be segregated.

RECOMMENDATION NOT IMPLEMENTED. See current finding #11.

19. WRC personnel should adequately safeguard and properly account for the numerical sequence of department purchase orders.

RECOMMENDATION IMPLEMENTED. Since April 1984, department purchase orders are controlled by the business manager.

20. WRC personnel should make arrangements to have vocational instructors use department purchase orders or field purchase orders when making local purchases. If the latter forms are used, each instructor should be assigned a specified amount of prenumbered field purchase orders and be required to properly account for them.

RECOMMENDATION MODIFIED. See current finding #1.

21. WRC personnel should adhere to established procedures for receipt of goods, and payment approval should only be given for purchases with proper receipt documentation.

RECOMMENDATION IMPLEMENTED. Since April 1984, proper receipt documentation is obtained before payments are made to vendors.

Food service employees receive free meals on a regular basis.

22. The current practice of providing free meals to WRC food service employees should be discontinued. WRC staff should work with DOC central office staff to develop a consistent policy for food service and other employees at correctional facilities. The policies in effect at state institutions such as hospitals, should be used as guides.

RECOMMENDATION NOT IMPLEMENTED. See current finding #14.



STATE OF MINNESOTA
DEPARTMENT OF CORRECTIONS

218-372-3101

WILLOW RIVER CAMP
BOX 200, WILLOW RIVER, MINNESOTA 55795

NCIC NO. MN058025C

September 8, 1988

James R. Nobles: Legislative Auditor
First Floor West
Veterans Service Building
St. Paul, Minnesota 55155

Dear Mr. Nobles:

Enclosed is my response to the findings and recommendations contained in the audit report of Willow River Camp for the four years ended June 30, 1987.

If you have any questions, or need more information, please feel free to call me at 296-4821.

Sincerely,

A handwritten signature in cursive script, reading "Gothriel LaFleur", is written over the typed name and title.

Gothriel LaFleur: Superintendent
Willow River Camp

Enclosure

cc: Howard Costello: Deputy Commissioner Institution Services
Shirley Flekke: Acting Assistant Commissioner Management
Services
Pete Maurer: Director Internal Audit

WILLOW RIVER CAMP AUDIT RESPONSE

1. RECOMMENDATION:

Willow River Camp (WRC) and Department of Corrections (DOC) staff should complete a feasibility study to determine if it would be more beneficial to continue the current contractual arrangement with ISD #576 or find alternative methods to administer the vocational programs.

WRC should verify that contracted salary amounts are supported by the number of hours to be worked and the rates per hour. In addition, WRC should verify that reimbursement requests are supported by time sheets indicating the number of hours worked.

WRC should require that actual indirect cost documentation be submitted for reimbursement.

WRC should verify the mathematical accuracy of all reimbursement requests prior to paying them. WRC should make arrangements with ISD #576 to collect the \$300 which was previously overpaid.

WRC should require all purchase orders to be approved by WRC personnel prior to their issuance.

RESPONSE

In August, 1988 the DOC appointed a Task Force on Vocational Education at WRC. This task force is charged with the specific responsibility of assessing the current program and preparing a set of recommendations for vocational programming at WRC.

Person Responsible: Roger Knudson, DOC Education Coordinator

Implementation Schedule: Task force recommendations will be submitted to the Commissioner of Corrections by December 31, 1988.

The ISD #576 has been unwilling to report hours of individual instructors or provide documentation supported by time sheets indicating the number of hours worked. The ISD #576 continues to report total hours for reimbursement. A letter requesting the reporting of hours worked and rates per hour with supporting time sheets has been forwarded to the ISD #576. Additionally, we are requesting that actual indirect cost documentation be submitted for reimbursement.

Person Responsible: Gothriel LaFleur

Implementation Schedule: Reporting consistent with audit findings to commence November, 1988.

The DOC internal audit section will review all reimbursement requests to determine their mathematical accuracy and make adjustments accordingly with ISD #576.

Person Responsible: Peter Maurer

Implementation Schedule: December 31, 1988

WRC is currently implementing a purchasing system to bring this function into compliance with audit findings.

Person Responsible: Gothriel LaFleur

Implementation Schedule: October 31, 1988

2. RECOMMENDATION:

WRC should work with DOC central office to establish their social welfare accounts on an automated system.

RESPONSE:

The DOC has recently undertaken the development of an uniform automated system for their social welfare accounts and WRC is included in the development and implementation schedule. Additionally, the social welfare accounts at WRC are being automated on an interim and limited basis with currently available resources.

Person Responsible: DOC Information and Analysis Section and Gothriel LaFleur.

Implementation Schedule: October 31, 1988.

3. RECOMMENDATION:

WRC should improve internal control over the social welfare accounting system by:

- having someone independent of cash, for both receipts and disbursements, post to the inmate accounting records.
- not allowing the same person who prepares checks to sign them; and
- having the person who authorizes deposits reconcile the deposit memorandum to the daily cash receipts total.

RESPONSE:

WRC will be adding a part-time administrative position to the business office in the near future. When this position is operational, WRC staff will be examining all fiscal functions to better provide a division of duties. We anticipate that the added position will assume disbursement duties thus removing this duty from the person who posts to the inmate accounting records. The responsibility for cash receipts will be assigned to an existing employee who does not post to inmate accounting records.

Currently all checks require two (2) signatures, thus while the person who prepares checks does sign the checks, additional internal control is provided because all checks require a second signature of a person who does not prepare the checks.

The WRC staff member who prepares the deposit memorandum (form Fi-00002-05) will verify the amount deposited with the daily receipts issued by the staff member responsible for receiving cash.

Person Responsible: Diane Jacobson

Implementation Schedule: January 31, 1989

4. RECOMMENDATION:

All inmate activity should be set up in the social welfare accounts. All inmate advances should be accounted for in the social welfare accounts.

Supporting documentation for social welfare transactions should be kept on file and be properly approved prior to processing.

RESPONSE:

WRC business office staff will work with the employee who coordinates the Alcoholics Anonymous (AA) at WRC and assure that AA funds are deposited as a group account in the social welfare accounts.

WRC business office staff will process inmate advances against the inmate's social welfare account in compliance with DOC policies and procedures.

WRC business office staff are working on revising the social welfare policies and procedures for WRC. Included in the revised procedures will be detailed procedures for documenting all purchases made from social welfare funds. Inmate withdrawal requests will be approved by authorized WRC staff when possible for voluntary withdrawals.

Person Responsible: Diane Jackson

Implementation Schedule: November 30, 1988

5. RECOMMENDATION:

WRC should establish a policy which includes investigating and writing off social welfare checks that have been outstanding for periods longer than six months.

RESPONSE:

WRC staff will establish a policy and procedure for writing off social welfare checks outstanding longer than six months.

Person Responsible: Diane Jacobson

Implementation Schedule: October 31, 1988

6. RECOMMENDATION:

WRC should deposit unclaimed amounts and write off uncollectible amounts as established by Minnesota Statutes Sections 10.12, 10.15 and 241.09.

RESPONSE:

WRC staff will examine inmate social welfare accounts and process unclaimed/uncollectible amounts in compliance with appropriate Minnesota Statutes.

Person Responsible: Diane Jacobson

Implementation Schedule: October 31, 1988

7. RECOMMENDATION:

WRC should establish a double-entry accounting system for recording, monitoring, and controlling the financial activities of the canteen operations, and prepare quarterly financial statements.

RESPONSE:

WRC will establish this set of records as recommended.

Person Responsible: Diane Jacobson

Implementation Schedule: December 31, 1988

8. RECOMMENDATION:

WRC should develop proper internal controls at the Moose Lake canteen by:

- maintaining only the authorized level of the change fund; and
- providing the cash register operators with adequate training.

RESPONSE:

WRC will review the cash on hand at the Moose Lake canteen for change purposes and assure that only the authorized amount is maintained. Additionally, WRC staff will prepare procedures which indicate that all daily receipts must be deposited intact.

WRC business staff will assure that current canteen staff as well as future staff are trained in operating the electronic cash register.

Staff at Moose Lake who were interviewed about the Moose Lake canteen operation apparently did not fully understand the canteen operations at that time. The audit report comments on \$100 worth of stamps received from the WRC business office to use in canteen operations. These stamps were purchased from canteen funds for purposes of resale at the Moose Lake canteen and thus should not be considered as any type of additional unauthorized change fund.

Person Responsible: Diane Jacobson

Implementation Schedule: October 31, 1988

9. RECOMMENDATION:

All receipts should be reconciled monthly to the SWA receipts by deposit report or the receipts by appropriation report. Differences should be investigated and reported.

RESPONSE:

The WRC business manager will reconcile receipts monthly to the appropriate statewide accounting receipts report(s).

Person Responsible: Diane Jacobson

Implementation Schedule: September 30, 1988

10. RECOMMENDATION:

WRC should improve controls over meal tickets by:

- separating the sales and deposit duties;
- selling individual meal tickets for \$1.60 and issuing a ticket for single sales; and
- disallowing the practice of issuing meal tickets on credit.

RESPONSE:

Implementation of updated Department of Corrections policy on employee meals at its facilities will bring WRC into compliance with audit findings. Separation of sales and deposit duties has been implemented.

Person Responsible: Gothriel LaFleur

Implementation Schedule: Partially completed

11. RECOMMENDATION:

Duties in the disbursement process should be adequately segregated so that incompatible functions are not performed by one individual.

RESPONSE:

WRC staff have segregated duties to assure that the same person does not both approve and enter payments. In most instances, the superintendent approves the statewide accounting batch cover sheet and another employee inputs the transactions. The addition of the part-time staff member in the WRC business office will help assure more adequate separation of duties.

Person Responsible: Diane Jacobson

Implementation Schedule: Completed

12. RECOMMENDATION:

WRC should take advantage of available discounts by paying invoices promptly.

RESPONSE:

WRC staff will more closely monitor invoices to assure that available vendor discounts are taken.

Person Responsible: Diane Jacobson
Implementation Schedule: Completed

13. RECOMMENDATION:

Duties should be adequately segregated in the food service area to reduce the risk of errors or irregularities.

WRC should ensure that only authorized individuals have access to the food inventory.

RESPONSE:

Access to food service area has been restricted and security enhanced to reduce the possibility of irregularities.

Person Responsible: Gothriel LaFleur
Implementation Schedule: Completed

14. RECOMMENDATION:

WRC should not allow employees to receive benefits such as free haircuts and meals that are not available to the general public.

RESPONSE:

WRC now charges employees for haircuts and any other services provided by the barber shop. The matter of free meals for cooks is being addressed in the DOC-wide policy and procedure currently being revised by central office staff.

Person Responsible: Gothriel LaFleur and John Calabrese, Acting Fiscal Services Director
Implementation Schedule: Partially completed. Meal policy scheduled for final approval by December 31, 1988.