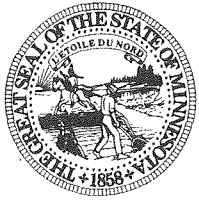


**DEPARTMENT OF HUMAN SERVICES
FARIBAULT REGIONAL CENTER
FINANCIAL AND COMPLIANCE AUDIT
FOR THE THREE YEARS ENDED JUNE 30, 1988**

JULY 1989



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

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

JAMES R. NOBLES, LEGISLATIVE AUDITOR

Senator John E. Brandl, Chairman
Legislative Audit Commission

Members of the Legislative Audit Commission

Ms. Ann Wynia, Commissioner
Department of Human Services

Mr. William Saufferer, Chief Executive Officer
Faribault Regional Center

Audit Scope

We have completed a financial and compliance audit of the Faribault Regional Center for the three years ended June 30, 1988. Section I provides a brief description of the center'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 Governmental Auditing Standards, and accordingly, included such audit procedures as we considered necessary in the circumstances.

Internal Accounting Control Systems

One objective of this audit was to study and evaluate major internal accounting control systems; payroll, administrative disbursements, cash and receipts, at the Faribault Regional Center, in effect as of February 28, 1989.

The management of the Faribault Regional Center is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required as 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 the inherent limitations in any system of internal accounting control, errors and irregularities may occur and may not be detected. Also, projections of the 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.

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Faribault Regional Center
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Finance-Related Legal Provisions

Another objective of this audit was to verify that financial transactions were made in accordance with significant finance-related laws. The Department of Human Services transfers General Fund appropriations to the Faribault Regional Center based on budget estimates pursuant to Minn. Stat. Sections 16A.10 and 246.12.

The Faribault Regional Center is governed by Minn. Stat. Chapters 246 and 252. These chapters establish specific legal provisions related to the center's financial activities. Minn. Stat. Sections 246.15 and 246.16 require accurate accounting and proper administration of resident moneys. Minn. Stat. 246.151 specifies the rates of compensation to be paid to residents enrolled in work activity programs. Minn. Stat. 246.51 requires accurate determination of funding sources for the cost of resident care. Minn. Stat. Section 256B.35, Subd. 1 authorizes the payment of personal needs allowances to certain residents. Minn. Stat. Section 246.56 establishes prevocational training programs for residents. Subdivision 2 creates a revolving fund and requires a system of records and accounts for work activity program revenue, operating expenses, and wages. Minn. Stat. 246.57, Subd. 1 authorizes the center to develop shared service agreements and collect revenue from other public and private entities. Minn. Stat. 252.50, Subd. 2 authorizes the center to lease building space for resident community group homes.

The Faribault Regional Center's financial transactions are subject to the general statutory provisions which affect the financial management of state agencies. Specifically, Minn. Stat. 16A.275 requires the prompt deposit of receipts. Minn. Stat. Section 16A.15, Subd. 3 provides that funds be encumbered prior to obligation. An imprest cash fund has been established at the center, pursuant to Minn. Stat. Section 15.191. The imprest cash account is also subject to the requirements of Minn. Stat. Section 246.21. Minn. Stat. Sections 16B.06, Subd. 2 and 16B.17 require contracts to be negotiated and written according to prescribed rules and limits. Finally, Minn. Stat. Sections 43A.07 and 43A.08 authorize the classification of employees and the changes in salaries. Employee salaries and other benefits are further negotiated in the various employee bargaining unit agreements.

The management of the Faribault Regional Center is 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 Faribault Regional Center had, in all material respects, administered its programs in compliance with the aforementioned general and specific laws and regulations.

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Faribault Regional Center
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Status of Prior Audit Findings

We have reviewed the status of nine audit findings included in the audit report for the three fiscal years ended June 30, 1985. The final report was issued July 3, 1986, and the follow-up report was issued October 19, 1987. The findings have all been resolved.

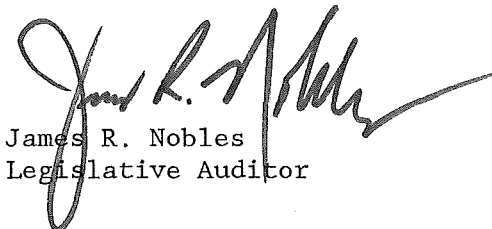
Conclusions

In our opinion, the Faribault Regional Center's system of internal accounting control, in effect on February 28, 1989, 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.

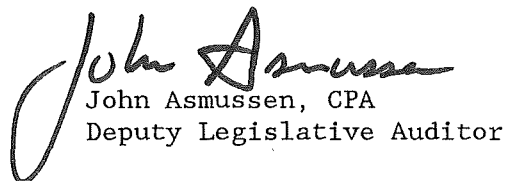
Section II, finding 1, represents a weakness in the Faribault Regional Center's receipt and accounts receivable controls. Finding 2 discusses the need to improve the administration of the indigent fund program. Finding 4 represents a weakness in the center's controls over employee mileage reimbursements. We believe these weaknesses subject the center to an unnecessary financial risk and should be corrected.

The results of our testing of transactions and records indicated that the Faribault Regional Center complied with the aforementioned finance-related legal provisions, except for the instance disclosed in Section II of this report. Finding 3 discusses noncompliance in contract administration. Nothing came to our attention in connection with our audit that caused us to believe that the Faribault Regional Center was not in compliance with other applicable legal requirements.

We would like to thank the Faribault Regional Center's staff for their cooperation during this audit. Progress on resolving the findings discussed in this report will be reviewed within the next year.



James R. Nobles
Legislative Auditor



John Asmussen, CPA
Deputy Legislative Auditor

END OF FIELDWORK: APRIL 7, 1989

REPORT SIGNED ON: July 6, 1989

FARIBAULT REGIONAL CENTER

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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
Renee Redmer	Audit Manager
Brad White, CPA	Auditor-in-Charge
Connie O'Brien	Staff Auditor
Ron Mavetz	Staff Auditor

EXIT CONFERENCE

The findings and recommendations in this report were discussed with the following staff of the Faribault Regional Center on April 7, 1989:

William Saufferer	Chief Executive Officer
Bridget Stroud	Assistant Administrator
Don Nellis	Personnel Director
Joan Warmington	Program Services
Spencer Wilker	Accounting Supervisor
Rich Mlekoday	Accounting Officer

FARIBAULT REGIONAL CENTER

I. INTRODUCTION

The Faribault Regional Center is a public residential facility serving the mentally retarded in a 13 county area in southeastern Minnesota. It is an intermediate care facility and provides specialized services to individuals who cannot properly be provided services or care in the home or community. The center is under the general management of the Commissioner of Human Services and the immediate supervision of a Chief Executive Officer (CEO) appointed by the Commissioner. William Saufferer has held the position of Chief Executive Officer of Faribault since his appointment became effective March 19, 1985. The center has an authorized staff complement of 948 to administer the general operations and various programs.

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 transferred the necessary funds to the center accounts. The Faribault Regional Center expenditures are summarized in the table below.

FARIBAULT REGIONAL CENTER
Operating Expenditures and Cost Per Average Population
Three fiscal years ending June 30, 1988

	<u>1986</u>	<u>1987</u>	<u>1988</u>
Personnel	\$28,359,154	\$27,921,463	\$28,684,610
Current Expense	2,459,861	2,112,210	2,143,859
Repairs and Replacements	141,151	367,778	272,392
Special Equipment	110,716	29,523	98,616
Less Regional Laundry Costs	<u>(802,252)</u>	<u>(813,352)</u>	<u>(790,428)</u>
TOTAL EXPENDITURES	<u>\$30,268,630</u>	<u>\$29,627,622</u>	<u>\$30,409,049</u>
AVERAGE POPULATION	627	592	547
COST PER AVERAGE POPULATION	\$48,275	\$50,030	\$55,592

Source: Fact Book: State Regional Treatment Centers and Nursing Homes, January 1989, Department of Human Services.

The center safeguards approximately \$300,000 of resident money as prescribed by Minnesota Statutes. Collections for shared services and work activities were about \$450,000 in 1988. Recently, the center opened four state-operated community group homes located in Byron, Dodge Center, Farmington, and Faribault. Approximately \$800,000 was expended on group homes for fiscal year 1988.

Legislation was finalized in the 1989 session to use the center's facilities for both correctional and human services programs. The center is required to reduce its resident population with the opening of additional community group homes over the next several years.

FARIBAULT REGIONAL CENTER

II. CURRENT FINDINGS AND RECOMMENDATIONS

1. Receipts and accounts receivable controls need improvement.

The center does not make daily deposits of group home, shared service, and work activity program receipts. Minn. Stat. Section 16A.275 requires that the center deposit receipts daily that total \$250 or more. The center has held checks exceeding \$250 up to four days before deposit. Twelve of 28 deposits reviewed were not deposited the following day. Delayed deposits cause loss of interest to the state and increases the potential for theft.

The business office does not maintain effective accounts receivable records for certain work activity and community service programs. The center operates several work activity and community service programs which produce revenue. For the largest programs, credit sales are provided to customers on a recurring basis. Currently, business office staff do not receive all sales invoices from work activity and community service staff. Therefore, the records are not complete because certain billings have not been posted. Work program and business office staff have not set up a clear routing process. Without proper invoice routing and monitoring of account balances, the center will not detect unpaid invoices. The center should establish effective accounts receivable controls for the largest work activity and community service programs. Recurring credit sales create a risk that all invoices will not be paid unless controlled by complete accounts receivable records. Accounts receivable controls will ensure collection of all earned revenue and reduce the potential for errors and irregularities. For the smaller programs, the center could control credit sales on an invoice by invoice basis.

The business office also does not maintain effective accounts receivable records for the group homes. They do not promptly update accounts receivable records for group homes. Staff do not post the invoice amounts to the receivable records until after receipts are collected. Prompt posting is necessary to monitor outstanding account balances and to expedite prompt deposit of receipts into the proper accounts.

Accounts receivable control should be improved by:

- sequential routing of all work program invoices through the business office;
- effective monitoring of unpaid work activity and community service invoices in the receivable records; and
- timely posting of group home invoices to the accounts receivable records.

RECOMMENDATIONS

- Receipts should be deposited daily when over \$250 is collected.

FARIBAULT REGIONAL CENTER

- The business office should establish effective accounts receivable systems for work programs and group homes.

2. Indigent resident account funds are not properly administered.

The Faribault Regional Center is authorized to disburse funds to needy residents for clothing and personal needs (Minn. Stat. Section 256B.35, Subd. 1). The center policy #3601 establishes guidelines for determining a resident's need for indigent funds. The guidelines require an application showing the resident's monthly income and other financial resources. To be eligible for a grant up to a maximum of \$40, the resident's account balance must be less than \$200. The director of social workers at the center authorized indigent account payments totaling \$9,500 for the past three fiscal years. The center currently pays indigent funds to residents without adherence to its own indigent fund policy.

The center grants indigent funds to residents without checking financial eligibility. Applications are not filed for all residents to substantiate funds received. Social workers apply for indigent funds for residents; however, they do not always complete written applications. Thirty-five indigent fund requests were made verbally to the director of social workers during the three years. Without written applications, there is no assurance that the resident's monthly income and financial resources were considered in determining eligibility for indigent funds. Furthermore, when the director receives applications, he does not verify the financial information with the business office to determine proper eligibility. We found two residents paid \$169 from the indigent account when their account balances were each over \$500. The director did not check the resident's account balance with the business office. Other residents also received more than the \$40 maximum grant.

We question the propriety of indigent account payments under the current policy for residents to attend special events. During the three year period, 63 residents received a total of \$7,010 for special events. The statutes and center policy indicate the indigent funds are to be used for residents' clothing and personal needs. Certain residents receive the funds for special events, such as summer camp or vacations. We do not believe that this is within the meaning of personal needs and intent set forth in the current policy.

The center should evaluate if the current indigent fund policy is workable and reasonable. The policy should directly address the issue of allowable costs. Because we are uncertain if special events qualify as a basic need, the policy should clearly address special events. The center should consult with the Department of Human Services central office staff to be sure that they properly use indigent funds.

FARIBAULT REGIONAL CENTER

RECOMMENDATION

- The Faribault Regional Center should evaluate the current indigent fund policy to define eligibility criteria and types of expenses which are appropriate. The propriety of using indigent funds for special events should be clearly addressed.

3. Contract procedures need improvement.

The center has began work and paid for certain professional and technical services without a written contract. Minn. Stat. Section 16B.06 authorizes the Commissioner of Administration to perform and review all contract management functions. Department of Administration policy and procedure ADM-188 requires:

- a written contract if payments to a contractor are \$500 or more in the fiscal year; and
- a fully executed contract in the possession of both the agency and the contractor before work is permitted to start.

The center allows contractors to begin work before they finalize the contracts. The Department of Finance requires the agency to justify in writing the reasons why work began before the funds are encumbered ("Chapter 16A letter"). We tested fifteen contracts and found that vendors began work on six contracts before final approval and encumbrance of funds. The center submitted Chapter 16A letters for five of the contracts. Faribault did not provide written justification to the Department of Finance on the sixth contract for medications training for staff. Although 16A letters may justify the reasons for contract delays, such letters should only be used in unique situations. The use of 16A letters should not be routine. The center should ensure sufficient lead time to complete contracts before services begin.

The center also incurs expenses for professional and technical services over \$500 without processing written contracts. Two vendors, paid more than \$500 for the year, did not have written contracts. One provider of lab services for \$2,606, \$1,813, and \$2,452 in each of the three fiscal years was not on contract. Another vendor provided educational services for more than \$500 for the year without a written contract. The center pays these vendors by expenditure authorizations for noncontract services. The center should monitor vendors paid under this expenditure authorization to be sure that the \$500 limit is not exceeded. Without a written contract, disputes could arise concerning duties of the contractor. Questions could also be raised relating to the amount of consideration, term of service, or other arrangements.

FARIBAULT REGIONAL CENTER

RECOMMENDATIONS

- The administration of contracts should be improved by:
 - authorization and encumbrance of contracts before work starts and obligations are incurred; and
 - preparation of written contracts with vendors for professional and technical services that exceed \$500 annually.

4. Controls over employee mileage reimbursements need improvement.

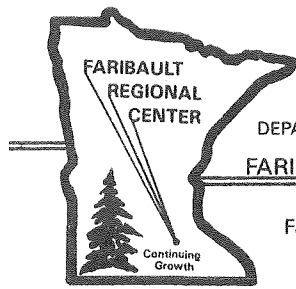
The Faribault Regional Center reimburses employees for automobile mileage when using private vehicles for business purposes. Department of Finance operating policy and procedure 06:05:15 states that agencies outside the seven-county metropolitan area, with their own pool of vehicles, must adopt procedures to encourage the use of state vehicles. The bargaining agreements also specify separate rates dependent on whether a state vehicle is available. The center does not encourage use of state vehicles but rather reimburses employees at the maximum mileage rate.

The center requires employees to sign for state vehicles but do not record requests when a car is not available. Five of seven mileage reimbursements were paid at the higher mileage rate with no documentation to support the unavailability of a state vehicle. As a result, these employee expense reports lack the necessary evidence to support an additional \$160 paid for mileage reimbursements.

Agencies within the seven-county metropolitan area encourage employees to use state vehicles by reimbursement at a lower mileage rate of \$.21 per mile if private vehicles are used; and at a higher rate of \$.27 per mile if a private vehicle must be used when a state vehicle is not available. A 50 mile cutoff prevents excessive state vehicle requests for short trips. The higher rate is not paid unless evidence supporting the unavailability of state cars is properly documented.

RECOMMENDATION

- The center should control employee mileage reimbursements by:
 - encouraging use of state vehicles when available; and
 - payment at the lower mileage rate when private vehicles are used in place of an available state vehicle.



STATE OF MINNESOTA
DEPARTMENT OF HUMAN SERVICES
FARIBAULT REGIONAL CENTER
802 Circle Drive
Faribault, Minnesota 55021
(507) 332-3000

Writer's Phone Number: (507) 332-3350

June 30, 1989

James R. Nobles, Legislative Auditor
Office of the Legislative Auditor
Veterans Service Building
St. Paul, MN 55155

Dear Mr. Nobles:

Thank you for providing us with an opportunity to respond to the recommendations contained in the draft copy of the audit report of Faribault Regional Center for the three years ending June 30, 1988. William Saufferer, Chief Executive Officer; Bridget Stroud, Assistant Administrator; and I have reviewed the report with the affected management team of FRC and wish to make the following responses to your recommendations. Mr. Saufferer has requested that I prepare this response.

Recommendations and Responses:

1. Receipts should be deposited daily when over \$250 is collected. The Business Office should establish effective accounts receivable systems for work programs and group homes.

RESPONSE: A Business Office procedure will be written by August 31, 1989, to include the following controls:

- (A) Total receipts of more than \$250 will be deposited daily.
- (B) Timely posting of all billings.
- (C) Ongoing monitoring of account balances.
- (D) A complete computerized Accounts Receivable system is being researched by the Business Office. A system will be selected and operational within 2 months of receiving a system. Target date is 12/31/89.

Spencer Wilker, Accounting Supervisor, is the responsible person for this recommendation.

2. The Faribault Regional Center should evaluate the current indigent fund policy to define eligibility criteria and types of expenses which are appropriate. The propriety of using indigent funds for special events should be clearly addressed.

RESPONSE: Center Regulation #3601 - Personal Property Funds for Indigent Clients is being reviewed and will be rewritten by August 31, 1989, to clearly define criteria and types of expenses which are appropriate as indigent fund expenditures. Internal controls will be included to insure criteria is met for authorization. Dean Nelson, Social Services Director, is the responsible person for this recommendation.

3. The administration of contracts should be improved by:
- authorization and encumbrance of contracts before work starts and obligations are incurred; and
 - preparation of written contracts with vendors for professional technical services that exceed \$500 annually.

RESPONSE: Attachment #1 is a copy of a February 2, 1989, memo from Bill Saufferer, CEO, to all cost center managers indicating that no service will be provided or received until a fully signed and approved document is in place. There will be no exceptions. If additional enforcement is necessary, the responsible person is Bill Saufferer, CEO.

The Business Office will work with cost center managers to ensure that contracts are established for professional and technical services that exceed \$500.00 annually. Richard Mlekoday, Accounting Officer, Intermediate, is the responsible person for this recommendation.

4. The center should control employee mileage reimbursements by:
- encouraging use of state vehicles when available; and
 - payment at the lower mileage rate when private vehicles are used in place of an available state vehicle.

RESPONSE: Faribault Regional Center follows the applicable employee bargaining agreement when paying an employee for private auto mileage. The agreements indicate the rate of reimbursement allowed: (A) when a state owned vehicle is not available and (B) when a state owned vehicle is available and is declined. Center Regulation #1640 - Employee Travel In-State and #1641 - Special Expenses for In-State and Out-State Travel will be rewritten by August 31, 1989, to include the use of Form #ADM-920-1 - Request for Transportation by State Vehicle (Attachment #2). The receiver of the form will indicate whether a state vehicle is available or not available and this form will accompany reimbursement forms that are forwarded to the Business Office for verification of the proper rate for auto mileage. Richard Mlekoday is the responsible person for this recommendation.

Faribault Regional Center
Audit Response
June 30, 1989

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We appreciate and respect the opinions offered by your field audit staff and the diligent manner in which they conducted the audit. Thank you for the opportunity to make this response.

Sincerely,



Spencer Wilker, Accounting Supervisor
For W.C. Saufferer, CEO
Faribault Regional Center

SW/cap

cc: W.C. Saufferer
Tom Sherwood, DHS
Bridget Stroud, FRC

DEPARTMENT : Administration

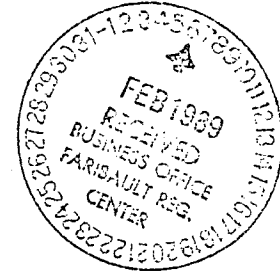
STATE OF MINNESOTA

Office Memorandum

DATE : February 2, 1989

TO : Cost Center Managers

FROM : Bill Saufferer
Chief Executive Officer



PHONE : 312

SUBJECT : Expense Reduction/Contract Processing

Attached for your information is 1) January 25, 1989, memo from Maria Gomez regarding the salary deficit, and 2) Department of Administration "Additional Requirements" per Contract Manual update of January, 1989.

The FRC will do its part in these endeavors! Effective at once:

Salary and Current Expense Accounts:

The signature of the Service Chief on any document submitted to the Personnel Office and the Business Office which requests a discretionary expense. ("Discretionary expense" excludes food budget, drug budget and utility budget.) Only those requests which involve expenditures essential to the operation of the facility will be approved and processed.

Consultant Contracts/Service Contracts/All Shared Service Agreements:

Expense incurring contracts will be subject to the same controls as for Salary and Current Expense.

Further: Absolutely NO service will be provided OR received until a fully signed and approved document is in place. There will not be exceptions. Needs for contracts or agreements must be anticipated and sufficient time allowed for processing.

The originating Cost Center will attach a signed and dated statement to each such document stating "No service has been or will be provided as described in the attached document until such time as the document is fully processed and returned to the Cost Center."

In order to provide shared service please be aware that a shared service agreement for less than \$500 can, and will be processed in one work day. This agreement can be used as a pre-agreement to allow sufficient processing time for agreements over \$500 which require more intensive scrutiny. Present urgent, less than \$500 agreements to June Nordhausen who will obtain an authorized signature.

Thank you.

/jn

cc: Exec. Comm.

FARIBAULT REGIONAL CENTER
Request for Transportation by State Vehicle

ATTACHMENT #2

REQUEST DATE: _____ DATE NEEDED: _____ DEPARTURE TIME: _____

RETURN TIME: _____ DESTINATION: _____ ESTIMATED MILEAGE: _____

REASON: _____

TYPE OF VEHICLE: CAR: _____ VAN: _____ HANDICAPPED VAN: _____ BUS: _____

RESIDENTS IN VEHICLE: _____ STAFF: _____ TOTAL: _____

DRIVER'S NAME: _____ DRIVER'S LICENSE: B _____ C _____

COMPLETED DEFENSIVE DRIVING: YES _____ NO _____

I have read and understand Faribault Regional Center Regulation #6511 relative to
the request and use of state-owned vehicles: YES _____ NO _____.

RESIDENT CONTINENT: _____ INCONTINENT: _____

APPROVED - AGS/RCS: _____ UNIT MGR. APPROVAL(OPTIONAL): _____

PHONE # _____

COST CODE: _____

ADMINISTRATION ONLY:

VEHICLE ASSIGNED # _____ BY: _____

FORM # ADM-920-1 PZ-99751-01