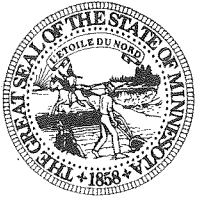


**DEPARTMENT OF CORRECTIONS
FINANCIAL AND COMPLIANCE AUDIT
FOR THE THREE YEARS ENDED JUNE 30, 1988**

AUGUST 1989

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



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

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

JAMES R. NOBLES, LEGISLATIVE AUDITOR

Senator John E. Brandl, Chairman
Legislative Audit Commission

Members of the Legislative Audit Commission

and

Mr. Orville B. Pung, Commissioner
Department of Corrections

Audit Scope

We have completed a financial and compliance audit of the Department of Corrections Central Office for the three years ended June 30, 1988. Section I provides a brief description of the department's activities and finances. Our audit was made in accordance with generally accepted auditing standards and the standards for financial and compliance audits 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, grants, administrative disbursements, cash and receipts, at the Department of Corrections Central Office, in effect as of April 30, 1989.

The management of the Department of Corrections Central Office 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, projection 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.

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 receives state appropriations and other monies which are subject to

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general and specific statutory provisions for administrative and grant transactions.

The Department of Corrections is governed by Minn. Stat. Chapter 241. This chapter establishes specific legal provisions related to the department's financial activities. Minn. Stat. Section 241.01 authorizes the acceptance and disbursement of gifts. Minn. Stat. Section 241.25 provides for emergency loans to inmates on parole or probation. Minn. Stat. Section 241.26, Subd 5 establishes an inmate fund for account for work release activities. Minn. Stat. Section 260.251, Subd. 1a authorizes subsidies for children placed in group homes. Minn. Stat. Section 260.311, Subd. 5 provides reimbursement to cities for probation services.

Minn. Stat. Chapter 401 authorizes community corrections grants to counties and regions. Section 401.06 requires the submission and approval of a comprehensive annual plan. Minn. Stat. Section 401.10 establishes the grant formula which is paid in quarterly installments pursuant to Section 401.14, Subd 3. Section 401.13 authorizes institution chargebacks for juveniles. Section 401.15 requires quarterly financial reporting to the department. Federal grants are paid according to CFDA #16.575 requirements for Crime Victims Assistance grants and CFDA #13.671 requirements for Family Violence Protection and Services grants.

The Department of Correction's financial transactions are subject to the general statutory provisions which affect the financial management of state agencies. Specifically, Minn. Stat. Section 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 department, pursuant to Minn. Stat. Section 15.191. Minn. Stat. Sections 16B.06, Subd. 2 and 16B.17 require contracts to be negotiated and written according to prescribed rules and limits. The commissioner's salary is set pursuant to Minn. Stat. Section 15A.081, Subd 1. Subdivision 8 authorizes an annual department head expense allowance. 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 Department of Corrections received General Fund appropriations to operate the central office and the institutions for fiscal years 1986 and 1987, in the Minn. Laws 1985, First Special Session, Chapter 9, Article 1, Section 5, and for fiscal year 1988, in the Minn. Laws 1987, Chapter 403, Article 1, Section 5.

The management of the Department of Corrections Central Office is responsible for the department's compliance with laws and regulations. In connection with our audit, we selected and tested transactions and records from the programs administered by the department. The purpose of our testing of transactions was to obtain reasonable assurance that the department has, in all material respects, administered its programs in compliance with the aforementioned general and specific laws and regulations.

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Status of Prior Audit Findings

We have reviewed the status of four audit findings included in the audit report for the three fiscal years ended June 30, 1985. The final report was issued May 27, 1986, and the follow-up report was issued May 27, 1987. The findings have all been resolved.


Conclusions


In our opinion, the Department of Corrections Central Office's system of internal accounting control, in effect on April 30, 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 weaknesses in the work release program internal controls. Finding 2 discusses the need to improve receipt records and controls. We believe that these weaknesses subject the department to an unnecessary financial risk and should be corrected.

The results of our testing of transactions and records indicated that the Department of Corrections Central Office 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 Department of Corrections Central Office was not in compliance with other applicable legal requirements.

We would like to thank the Department of Corrections Central Office 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: June 14, 1989

REPORT SIGNED ON: August 2, 1989

DEPARTMENT OF CORRECTIONS

CENTRAL OFFICE

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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
Brad White, CPA	Auditor-in-Charge
Sandy Linn	Staff Auditor
Susan Rumpca	Intern

EXIT CONFERENCE

The findings and recommendations in this report were discussed with the following staff of the Department of Corrections Central Office on July 10, 1989:

Orville Pung	Commissioner
Shirley Flekke	Assistant Commissioner - Management Services (acting)
John Calabrese	Fiscal Services Director (acting)
Peter Maurer	Accounting Director
Sharon Schmidt	Fiscal Services Supervisor

DEPARTMENT OF CORRECTIONS

CENTRAL OFFICE

I. INTRODUCTION

The Department of Corrections was established in 1959 to consolidate state correctional functions under one agency. The primary purpose of the department is clearly one of public protection. The department is a service and regulatory agency which serves state institutions and community programs for adjudicated delinquent and adult felons. Commissioner Orville Pung provided the general management of the department since his appointment in 1982.

The department is organized into four main divisions:

- The Institution Services Division operates the nine correctional facilities with a population of over 2,800. Support services include health care, education, correctional industry coordination, and inmate classification.
- The Community Services Division administers the Minnesota Community Corrections Act. This division also provides a wide range of community services programs for work release and parole services, inspection of local jails and other correctional facilities, crime victims programs, and a wide range of community services programs.
- The Management Division provides overall administrative, planning, policy development, training, and staff support service functions for the department. This division includes personnel, information and analysis, fiscal services, planning for women offenders, training, office management/affirmative action, and hearings and appeals.
- The Offices of Release have responsibility for providing probation, supervised work release, and parole services for over 7,000 juveniles and adults statewide.

Central Office expenditures, excluding institutional appropriations, for the three fiscal years ending June 30, 1988, were:

	<u>Fiscal Year</u>		
	<u>1986</u>	<u>1987</u>	<u>1988</u>
Payroll	\$ 8,207,165	\$ 8,808,758	\$ 9,275,179
Professional/Technical Services	3,048,548	3,145,328	3,780,332
Administrative Disbursements	1,722,510	1,815,999	2,201,662
Supplies and Equipment	447,013	502,047	832,689
State and Federal Grants	<u>19,237,115</u>	<u>17,372,794</u>	<u>20,513,405</u>
TOTAL EXPENDITURES	<u>\$32,662,351</u>	<u>\$31,644,926</u>	<u>\$36,603,267</u>

Source: Statewide Accounting System Manager's Financial Reports as of September 6, 1986, September 5, 1987, and September 3, 1988.

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II. CURRENT FINDINGS AND RECOMMENDATIONS

1. Internal control over the work release program is inadequate.

Financial controls over the work release program transactions require improvement. Currently, financial duties within the Fiscal Services Division are not separated. Work release program and fiscal services staff require no documentation to authorize and support disbursements from the inmate accounts. The inmates' share of rent is paid through a bank checking account rather than directly through the statewide accounting system. Improved control and documentation are necessary due to the higher risks from use of local checking accounts.

The work release program provides community employment and vocational training to offenders on parole or probation while they live in a monitored residential setting. The work release staff in Central Office manages over 200 inmates participating each year in the work release program. These staff contract with residential work release centers for room and board on a per diem basis. The inmate must pay a portion of monthly rent unless formally waived by the department. Fiscal services staff collect and disburse approximately \$300,000 of inmate money each year as authorized by Minn. Stat. Section 241.26.

Financial duties for the work release program concentrate on one individual within fiscal services. The individual deposits and disburses work release money and maintains the individual inmate ledgers. The same staff person also reconciles the ledger totals to the statewide accounting (SWA) balances. The employee could make an error or irregularity and conceal it in the reconciling phase. The work release program accounting is vulnerable to error due to a high volume of activity in and between two local checking accounts. The activity also includes many voided checks. A good system of internal controls requires that one person not handle the full transaction cycle. Separation of duties between staff provides the ability for personnel to discover errors and irregularities and to safeguard the inmate money.

Fiscal services employees disburse inmate funds based on verbal approval from work release staff. Many disbursements are for weekly allowances of \$25 or \$40. However, the staff require no documentation to authorize and support payments, for such purchases as furniture, car insurance, and tools. Minn. Stat. Section 241.26, Subd. 5 requires disbursement of retained wages for specific purposes. The inmate must pay rent, travel, dependent support, and restitution before having discretion to direct payment for other personal debts. Work release staff should authorize and determine reasonableness of the payment amount. Also, Minn. Stat. Section 241.25 authorizes emergency loans to persons on parole or probation. The work release staff must determine eligibility for the inmate to receive this loan. The absence of documentation to authorize and support payments weakens control and provides no assurance that the use of funds complies with statutes.

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The inmates' share of room and board is paid through a \$5,000 bank checking account authorized by the Department of Finance. Fiscal services staff write monthly checks to vendors for rent which accumulates to as much as \$4,000. These significant checks cause a negative checkbook balance, and the checks must be held until reimbursed from the SWA system. At the time of reimbursement, the accompanying vouchers are not subject to the same administrative controls in effect for disbursements made directly through the SWA system. Controls over work release disbursements would be strengthened by processing disbursements directly through the statewide accounting system.

RECOMMENDATIONS

- The Fiscal Services Division should separate the work release financial responsibilities. Primarily, staff independent of the work release accounting function should reconcile the inmate ledger total to the SWA fund balance.
- Work release staff should document and authorize loans and disbursements from work release money.
- Fiscal services staff should pay the inmates' share of room and board through the statewide accounting system.

2. Receipt records and control need improvement.

Fiscal services staff do not maintain effective control over receipts. Approximately \$600,000 is collected each year for the community services and work release programs which are the two largest. Receipt records do not support total deposit amounts and employees hold receipts for deposit longer than necessary. Improved control is important due to the sensitive nature of handling receipts.

Fiscal services employees do not complete a record of all incoming receipts on a central list. The current list includes only checks received through the mail, but not checks or money orders which are hand-delivered. Approximately one half of the check volume is hand-delivered to the department and is not listed. Deposits include these receipts, yet there is no complete list supporting the total. An incomplete list increases the potential for lost receipts and provides no assurance of proper deposit of all collections for the day. A complete list allows for comparison to deposit totals daily by an independent staff person.

Fiscal services employees also do not make daily deposits of receipts. Minn. Stat. Section 16A.275 requires that agencies deposit daily when receipts total \$250 or more. The fiscal services staff has held checks exceeding \$250 up to four days before deposit. Eleven of 25 deposits we reviewed were not deposited the following day. Delayed deposits cause loss of interest to the state and increase the potential for theft.

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RECOMMENDATION

- Fiscal services management should improve receipt controls by:
 - maintaining a complete list of receipts which reconciles to each deposit total; and
 - depositing receipts daily when \$250 or more is collected or accumulated.

3. Contracts administration needs improvement.

Central Office 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;
- a certification report to the Department of Administration for proposed contracts more than \$2,000; and
- a fully executed contract in the possession of both the agency and the contractor before services begin.

Central Office allows contractors to begin work before they finalize the contracts. The Department of Finance requires written justification on why work began before the encumbrance of funds ("Chapter 16A letter"). We tested 14 contracts and found that vendors began work on 13 contracts before final approval and encumbrance. Central Office submitted Chapter 16A letters for 12 of the contracts. However, they did not provide justification to the Department of Finance on a training contract for local jails. Although Chapter 16A letters may justify the reasons for contract delays, they are only to be used in unique situations. The use of Chapter 16A letters is not to become routine. Central Office should ensure sufficient lead time to complete contracts before services begin.

Central Office also incurs expenses for some services over \$500 without processing written contracts. Two vendors, paid \$1,207 and \$1,250 for consulting services in 1988, were not under contract. The department's annual plan allows a higher contract limit of \$2,000 for health services and presentence investigations. However, four health services providers paid \$28,018, \$14,583, \$6,793 and \$6,000 in fiscal year 1988 were not on contract. Two individuals paid \$2,262 and \$2,637 for presentence investigations in 1988 were not on contract. Central Office also did not prepare the certification forms required for these services. The department pays all of these vendors through expenditure authorizations for noncontract

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services. They need to monitor vendors paid out of these expenditure authorizations to ensure that they do not exceed the applicable dollar limit. Without a written contract, disputes could arise concerning duties of the contractor, amount of consideration, term of service, or other arrangements.

RECOMMENDATION

- To improve contract administration, Central Office should:
 - authorize and encumber contracts before work begins and obligations are incurred;
 - prepare written contracts with vendors of professional and technical services that exceed the annual limits; and
 - prepare certification forms for proposed contracts for over \$2,000.

July 31, 1989

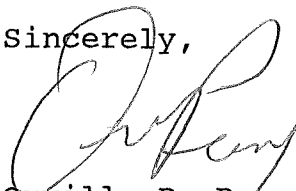
Mr. James R. Nobles, Legislative Auditor
Office of the Legislative Auditor
Veterans Service Building
St. Paul, Minnesota 55155

Dear Mr. Nobles:

As requested, I am enclosing our response to the findings and recommendations included in your audit report of the Department of Corrections - Central Office for the three years ended June 30, 1988. Implementation will take place no later than October, 1989.

We appreciate your assistance in improving accounting procedures and controls within our Central Office and at our institutions. If you have any questions or comments on our response, please feel free to call me or my staff.

Sincerely,



Orville B. Pung
Commissioner

Enclosure

OBP:dl

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RECOMMENDATION:

1. < The Fiscal Services Division should separate the work release financial responsibilities. Primarily, staff independent of the work release accounting function should reconcile the inmate ledger total to the SWA fund balance.
- < Work release staff should document and authorize loans and disbursements from work release money.
- < Fiscal services staff should pay the inmates' share of room and board through the statewide accounting system.

RESPONSE:

- < A fiscal services staff member independent of the person performing the work release accounting function will be assigned the responsibility of reconciling the inmate ledger to the SWA fund balance at a minimum of once at the end of each month.
- < Fiscal services staff will require that all disbursements from work release money are documented by a formal request approved by work release staff.
- < The inmates' share of room and board will be paid through the statewide accounting system rather than through the existing bank account.

Person Responsible: John Calabrese - Fiscal
Services Director (Acting)

Implementation Date: October 1, 1989

RECOMMENDATION:

2. < Fiscal services management should improve receipt controls by:
- maintaining a complete list of receipts which reconciles to each deposit total; and
 - depositing receipts daily when \$250 or more is collected or accumulated.

RESPONSE:

- < -- A receipts log will be implemented by fiscal services staff and all receipts entered in the log to provide a means of reconciling funds received to funds deposited.
- Central office fiscal services will establish a policy which includes the provision that funds received by 3:00 P.M. each work day will be deposited the next business day when they aggregate \$250 or more.

Person Responsible: John Calabrese - Fiscal Services Director (Acting)

Implementation Date: September 1, 1989

RECOMMENDATION:

3. < To improve contract administration, Central Office should:
- authorize and encumber contracts before work begins and obligations are incurred;
 - prepare written contracts with vendors of professional and technical services that exceed the annual limits; and
 - prepare certification forms for proposed contracts for over \$2,000.

RESPONSE:

- < Department of Corrections staff will receive written notice of key contract procedures including those specified in this recommendation. Fiscal units throughout the department will monitor for compliance to the department procedure.

Person Responsible: John Calabrese - Fiscal Services Director (Acting)

Implementation Date: August, 1989