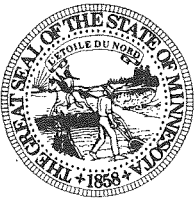


**DEPARTMENT OF HUMAN SERVICES
BRainerd REGIONAL CENTER
FINANCIAL AND COMPLIANCE AUDIT
FOR THE THREE YEARS ENDED JUNE 30, 1988**

AUGUST 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. Harvey Caldwell, Chief Executive Officer
Brainerd Regional Human Services Center

Audit Scope

We have completed a financial and compliance audit of the Brainerd Regional Human Services 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; state employee payroll, resident pay, administrative disbursements, work activity receipts, and receipts and disbursements from the social welfare account, at the Brainerd Regional Human Services Center, in effect as of April 30, 1989.

The management of the Brainerd Regional Human Services 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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Brainerd Regional Human Services 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 Brainerd Regional Human Services Center based on budget estimates pursuant to Minn. Stat. Sections 16A.10 and 246.12.

The Brainerd Regional Human Services 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. Section 246.15 requires 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.

The Brainerd Regional Human Services Center's financial transactions are also 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 account 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 16B.07 through 16B.09 require competitive bidding on state contracts.

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

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 August 22, 1986, and the follow-up report was issued August 14, 1987. The findings have all been resolved.

Senator John E. Brandl, Chairman
Members of the Legislative Audit Commission
Ms. Ann Wynia, Commissioner
Department of Human Services
Mr. Harvey Caldwell, Chief Executive Officer
Brainerd Regional Human Services Center
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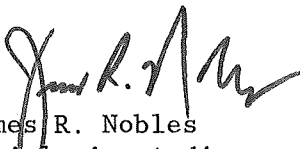
Conclusions


In our opinion, the Brainerd Regional Human Services Center'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, findings 1-2, represent weaknesses in the Brainerd Regional Human Services Center's administration of the social welfare and current expense accounts. Finding 3 represents a weakness in the center's controls over pharmacy and food purchases. 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 indicate that the Brainerd Regional Human Services Center complied with the aforementioned finance-related legal provisions, except for the instance disclosed in Section II of this report. Finding 2 discusses noncompliance with the statutes in the administration of current expense payments. Nothing came to our attention in connection with our audit that caused us to believe that the Brainerd Regional Human Services Center was not in compliance with other applicable legal requirements.

We would like to thank the Brainerd Regional Human Services Center 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 9, 1989

REPORT SIGNED ON: August 24, 1989

BRAINERD REGIONAL HUMAN SERVICES 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
Ken Vandermeer, CPA	Auditor-in-Charge
Dave Poliseno	Staff Auditor
Chris Buse, CPA	Staff Auditor

EXIT CONFERENCE

The findings and recommendations in this report were discussed with the following staff of the Brainerd Regional Human Services Center on June 2, 1989:

Harvey Caldwell	Chief Executive Officer
Elmer Davis	Assistant Administrator
Keith Bernard	Hospital Services Director
Norris Kowalke	Accounting Supervisor Senior
Don Skillings	Social Services Director
Russ Tyler	Rehab Services Director
Virginia Paul	Skills Development Supervisor
Lynn Ogren	Personnel Officer

BRAINERD REGIONAL HUMAN SERVICES CENTER

I. INTRODUCTION

The Brainerd Regional Human Services Center is a multipurpose facility which serves individuals with problems caused by mental illness, chemical dependency, or mental retardation. The center services a 12 county area in north central Minnesota. The center is under the general management of the Commissioner of Human Services and the immediate supervision of a chief executive officer (CEO) who is appointed by the commissioner. Harvey Caldwell is the current CEO at the center. The center has a staff of 625 to administer the general operations and various programs at the center.

The center is financed mainly by General Fund appropriations made directly to the Department of Human Services. Human Services is responsible for maintaining, controlling, and transferring the necessary funds to the appropriate center accounts. The table below summarizes the center's expenditures.

Brainerd Regional Human Services Center
Operating Expenditures and Cost Per Average Population
Three fiscal years ending June 30, 1988

	<u>FY 1986</u>	<u>FY 1987</u>	<u>FY 1988</u>
Personnel	\$18,726,346	\$18,454,467	\$18,078,768
Current Expense	1,829,980	1,623,417	1,580,547
Repairs and Replacements	217,838	267,376	208,863
Special Equipment	<u>62,375</u>	<u>52,148</u>	<u>60,531</u>
Subtotal	\$20,836,539	\$20,397,408	\$19,928,709
Less: Systemwide Regional Laundry Costs	<u>652,350</u>	<u>645,639</u>	<u>670,283</u>
TOTAL EXPENDITURES	<u>\$20,184,189</u>	<u>\$19,751,769</u>	<u>\$19,258,426</u>
AVERAGE POPULATION	401	364	343
COST PER AVERAGE POPULATION	\$50,335	\$54,263	\$60,371

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

The center safeguards approximately \$100,000 of resident money as prescribed by Minnesota Statutes. These funds consist of wages, donations, and personal needs allowances.

BRAINERD REGIONAL HUMAN SERVICES CENTER

II. CURRENT FINDINGS AND RECOMMENDATIONS

1. Internal controls over withdrawals of residents' funds need improvement.

Certain employees at the center are not following administrative policies for withdrawing residents' money. Center regulation #7105 outlines procedures that staff should follow for withdrawing, safekeeping, and disbursing residents' funds. This policy also provides procedures for charging residents' purchases at local stores. Weaknesses in administering residents' funds at the center are discussed below.

- Center staff did not complete or file cash withdrawal slips in certain cases. Staff members withdrawing more than \$5 from a resident's account are provided a cash withdrawal slip by the business office. Staff are required to document the disposition of the money withdrawn on the slip and return it to the business office. Residents must sign the form if cash is given to them for personal use. Receipts must be attached if employees purchase items for residents. In either case, the employee's supervisor must countersign the form, attesting to its validity. We reviewed 26 cash withdrawals over \$5 for proper documentation. Staff did not return the withdrawal slips to the business office in three of these cases. In a further review we noted four more cases where the business office did not issue withdrawal slips. These withdrawals were also over the \$5 limit. Documenting the disposition of residents' funds is a key control in the withdrawal system.
- Staff and residents did not sign the cash withdrawal slips for some items over \$5. In reviewing the cash withdrawal process, we noted four of seven cases where the withdrawal slips were not signed by both parties. Upon further review, two additional withdrawals came to our attention which did not have both signatures authorizing the transactions. These signatures are an important control in documenting the propriety of withdrawals from residents' funds.
- Some center supervisors did not require receipts for resident withdrawals. Therefore, staff did not attach receipts to the withdrawal slips to document purchases made for residents. For example, staff in resident building 22 do not require receipts for canteen purchases. Staff should obtain adequate documentation to show the purpose of the withdrawal.
- Residents are withdrawing funds for other residents. Staff allow residents to withdraw other residents' money. In one instance, a resident made a \$150 withdrawal for another resident and the cash withdrawal slip is missing. As a result, we are unable to determine if the money was ever given to the proper resident. On two

occasions, residents picked up group withdrawals totalling \$326 and \$232. Center policies contain no provisions allowing residents to withdraw other residents' money.

- Employees are making withdrawals that exceed policy limits without the advance approval of the Social Services Director. Center policies state that cash withdrawals by staff shall have the concurrence of the Social Services Director if the amount exceeds \$50 for a single item, or \$100 in total. The purpose for the withdrawal is also to be noted. We reviewed cash withdrawals of \$363, \$293, and \$110, where staff did not receive the approval of the Social Services Director.
- Finally, staff did not document the purpose of the withdrawal in some cases. Although the proper signatures were shown for these withdrawals, staff did not indicate how the funds were to be used by the residents. For example, a resident withdrew \$262 in cash which was approved by the supervisor. However, the purpose of the withdrawal or intended use for the funds was not shown on the withdrawal slip.

Internal controls over withdrawals of residents' funds are weakened by the center's failure to enforce its own policies. The center is unable to prove what it did with residents' money when cash withdrawal slips are missing and improperly completed. The center could be liable for losses that result from allowing residents to withdraw other residents' funds. Not requiring proper signatures and not documenting the purpose of the withdrawals increases the risk of theft or other inappropriate use of the money. To improve controls and lessen the risk of inappropriate transactions, the center must verify that employees comply with existing cash withdrawal procedures.

RECOMMENDATION

- Center staff should verify that cash withdrawals of residents' funds are made in accordance with center regulations.

2. The center needs to improve the administration of the current expense account.

The business office uses its imprest cash account (current expense) for items which should be paid through the statewide accounting system. Employees purchasing items from the account do not sign the documentation authorizing payment.

Minn. Stat. Section 246.21 establishes the authority for the center's current expense account. This section provides for payments as follows; emergency situations, paying freight, purchasing produce, livestock and other commodities requiring a cash settlement, and discounting bills incurred.

BRAINERD REGIONAL HUMAN SERVICES CENTER

The center maintains \$2,000 in the current expense account which is comprised of a checking account and imprest cash. The center processes its current expense payments through the business office. The center inappropriately uses the account to pay for various expenses. For instance, payments for postage, subscriptions, registrations, purchased services, and employee reimbursements were made. These expenses do not require immediate payment; therefore, they do not qualify for payment through the contingent account. Expenses that do not require immediate payment must be processed through the Department of Finance.

Employees responsible for the current expense charges do not approve the transactions for payment. The business office prepares vouchers for all current expense payments. The voucher is signed by the business office staff and contains any applicable documentation such as purchase orders and invoices. However, the employee responsible for the charges does not sign the documents authorizing the payment.

RECOMMENDATIONS

- The center should refrain from using the current expense account to finance payments which should be processed through the Department of Finance.
- All current expense payments should be supported by appropriate documentation and properly approved.

3. The center does not verify the price or type of goods ordered for pharmacy and food purchases.

The center purchases pharmaceuticals and food supplies weekly under a state contract. Goods purchased are received centrally at the center. The central receiving area verifies the goods received to the purchase orders to attest to the proper quantities. The business office receives the invoices, verifies that the goods were received, and pays the vendor. However, no one verifies the prices charged by the vendor to the state contract prices.

To prevent overpayments, invoice prices should be compared to contract prices. Since the volume of goods ordered is high, verification of each individual price is not feasible. However, a spotcheck of goods on each invoice can provide adequate control against overcharges. In addition, the quality of goods received may not meet the contract specifications. Without a comparison, these deviations could go undetected.

RECOMMENDATION

- Pharmacy and food purchases should be verified to the state contract prices.



1777 Highway 18 East
Brainerd, Minnesota 56401-1000
(218) 828-2201

Harvey G. Caldwell
Chief Executive Officer

August 23, 1989

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

Dear Mr. Nobles:

This is Brainerd Regional Human Services Center's formal written response to the comments and recommendations contained in the Financial and Compliance Audit Report, submitted by Renee Redner on August 7, 1989.

1. Internal controls over withdrawals of resident's fund need improvement.

Recommendation:

- Center staff should verify that cash withdrawals of resident's funds are made in accordance with Center regulations.

Plan:

- A management team comprised of Barbara Rudlang, Director, Timberland Mental Health Program; Chuck Fields, Administrative Manager, Timberland Mental Health Program; John Mahling, Administrative Manager, Aurora Chemical Dependency Program; Cheryl Bolles, Director of Nurses; Esther Reagan, Administrative Manager, Timberland Mental Health Program, Adolescent Unit; and Donald Skillings, Social Services Director will write a comprehensive policy, modeled after present internal financial policies, to ensure compliance with this recommendation. The outcome will be that each treatment program will have a specific set of official BRHSC policies and procedures pertinent to its own needs which will provide improved handling and disbursement of client funds, with continuous monitoring and control mechanisms.

Completion Date:

- Policy and procedures for Timberland Mental Health Program will be operational by September 30, 1989.

- Policy and procedures for the other three programs (Lakes Area Residential Communities, Aurora Chemical Dependency Program, and Woodhaven Senior Community) will be operational by November 1, 1989.

2. The Center needs to improve the administration of the current expense account.

Recommendation:

- The Center should refrain from using the current expense account to finance payments which should be processed through the Department of Finance.
- All current expense payments should be supported by appropriate documentation and properly approved.

Plan:

- Business Office procedures for handling the current expense checking account and imprest cash account will be put in writing. They will ensure appropriate documentation and prior approval on all current expense payments.
- Training for Business Office employees on the procedures to be followed to comply with MN Stat. Section 246.21, and the above recommendations, will be established and provided.

Completion Date:

- Written Procedures by September 15, 1989.
- Training completed by September 30, 1989.

3. The center does not verify the price or type of goods ordered for pharmacy and food purchases.

Recommendation:

- Pharmacy and food purchases should be verified to the state contract prices.

Plan:

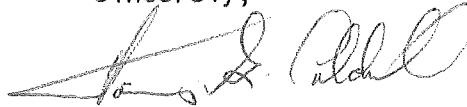
- Pharmacy refers to drugs on state contract with Twin City Drug Company. The Business Office will spot check 5% of items on each weeks invoices with the prices on the Twin City Wholesale Drug Company/State of Minnesota price list fiche. The senior account clerk doing the spot check will star and initial each invoice price checked.

- Norma Cameron, Contract Administrator, Food Contract Items, Material Management Division, Department of Administration has been contacted for documents to verify the State contract prices. She will furnish us the food market prices for two months of each fiscal year along with the markup percentage, which is the basis for contract food prices. With this information we will spot check 5% of the food invoice prices for the months furnished.

Completion Date:

- Spot checking prices projected September 30, 1989.

Sincerely,

A handwritten signature in dark ink, appearing to read 'Harvey G. Caldwell', is written over a horizontal line.

Harvey G. Caldwell
Chief Executive Officer

Enclosure

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