DEPARTMENT OF HUMAN SERVICES
WILLMAR REGIONAL TREATMENT CENTER
FINANCIAL AUDIT
FOR THE THREE YEARS ENDED JUNE 30, 1989

JUNE 1990

Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

90-32

Veterans Service Building, Saint Paul, Minnesota 55155 • 612/296-4708

WILLMAR REGIONAL TREATMENT CENTER

FINANCIAL AUDIT
FOR THE THREE YEARS ENDED JUNE 30, 1989

Public Release Date: June 15, 1990 No. 90-32

OBJECTIVES:

- EVALUATE INTERNAL CONTROL STRUCTURE: Social welfare receipts; social welfare disbursements; chemical dependency program receipts; shared services receipts; employee reimbursements; contractual services; employee payroll; resident payroll; and gifts for chemical dependency program.

- TEST COMPLIANCE WITH CERTAIN FINANCE-RELATED LEGAL PROVISIONS.

CONCLUSIONS:

We found three areas where the internal control structure needed improvement:

- Business office employees are performing incompatible accounting functions for residents' accounts. Employees who receive and disburse cash should not post receipt and disbursement transactions to the accounting records. The person who reconciles the accounting records to cash should be independent of the cash handling and recordkeeping functions.

- The center is not following state purchasing procedures for canteen supples. The center should first review existing state contracts; and secondly develop contracts based on bids if existing state contracts are not applicable.

- The center is not operating the canteen efficiently. We determined that the canteen incurred a net operating loss of $70,000 in 1989. The state General Fund absorbed the loss. The center should work with the Department of Human Services central office and other regional treatment centers to develop a more efficient canteen operation.

We found one additional area where the center had not complied with finance-related legal provisions:

- The center is not depositing and using certain receipts properly. These receipts related to vending machine commissions for the canteen.

Contact the Financial Audit Division for additional information.
(612) 296-1730

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

Ann Wynia, Commissioner
Department of Human Services

Gregory Spartz, Chief Executive Officer
Willmar Regional Treatment Center

Audit Scope

We have completed a financial related audit of the Willmar Regional Treatment Center for the three years ended June 30, 1989. Our audit included only that portion of the State of Minnesota financial activities attributable to the transactions of the Willmar Regional Treatment Center as discussed in the introduction. We have also made a study and evaluation of the internal control structure of the Willmar Regional Treatment Center in effect as of January, 1990.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial activities attributable to the transactions of the Willmar Regional Treatment Center are free of material misstatements.

As part of our study and evaluation of the internal control structure, we performed tests of the Willmar Regional Treatment Center's compliance with certain provisions of laws, regulations, contracts, and grants. However, our objective was not to provide an opinion on overall compliance with such provisions.

Management Responsibilities

The management of the Willmar Regional Treatment Center is responsible for establishing and maintaining an internal control structure. This responsibility includes compliance with applicable laws, regulations, contracts, and grants. In fulfilling this responsibility, estimates and judgements by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that:

- assets are safeguarded against loss from unauthorized use or disposition;

- transactions are executed in accordance with applicable legal and regulatory provisions, as well as management's authorization; and,

- transactions are recorded properly on the statewide accounting system in accordance with Department of Finance policies and procedures.

Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

Internal Control Structure

For purposes of this report, we have classified the significant internal control structure policies and procedures in the following categories:

- social welfare receipts;
- social welfare disbursements;
- chemical dependency program receipts;
- shared service receipts;
- employee reimbursements;
- contractual services;
- employee payroll;
- resident payroll; and
- gifts for chemical dependency program.

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed the control risk.

Conclusions

Our study and evaluation disclosed the conditions discussed in findings 1, 3, and 4 involving the internal control structure of the Willmar Regional Treatment Center. We consider these conditions to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgement, could adversely affect the entity's ability to record, process, summarize and report financial data.

A material weakness is a reportable condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors and irregularities in amounts that would be material in relation to the financial activities being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We believe that the reportable condition described in finding 1 to be a material weakness.

We also noted other matters involving the internal control structure and its operation that we reported to management of the Willmar Regional Treatment Center at the exit conference held on March 23, 1990.

The results of our tests indicate that, except for the issues discussed in findings 2 through 4, with respect to the items tested, the Willmar Regional Treatment Center complied, in all material respects, with the provisions referred to in the audit scope paragraphs. With respect to items not tested, nothing came to our attention that caused us to believe that the Willmar Regional Treatment Center had not complied, in all respects, with those provisions.

This report is intended for the information of the Legislative Audit Commission and management of the Department of Human Services and the Willmar Regional Treatment Center. This restriction is not intended to limit the distribution of this report, which was released as a public document on June 15, 1990.

We would like to thank the Willmar Regional Treatment Center staff for their cooperation during this audit.

James R. Nobles
Legislative Auditor

John Asmussen, CPA
Deputy Legislative Auditor

END OF FIELDWORK: March 23, 1990

REPORT SIGNED ON: June 4, 1990

WILLMAR REGIONAL TREATMENT CENTER

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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
Renee Redmer	Audit Manager
Jack Hirschfeld, CPA	Auditor-In-Charge
Chris Buse, CPA	Senior Auditor
Sandy Linn	Senior Auditor

EXIT CONFERENCE

The findings and recommendations in this report were discussed with the following officials of the Willmar Regional Treatment Center at the exit conference held on March 23, 1990:

Greg Spartz	Chief Executive Officer
Wayne Nelson	Assistant Administrator
Stephen Grams	Business Manager
Tom Venaas	Personnel Director
Paul Nelson	Quality Assurance Director
James Riebe	Rehabilitation Director
Ken Stinson	Chemical Dependency Director
Dennis Butler	Director of Nursing
Carol Arends	Business Office
Nancy Kulseth	Payroll Coordinator
Joan Frederickson	Workers Compensation Coordinator

INTRODUCTION

The Willmar Regional Treatment Center (center) serves mentally ill (MI), developmentally disabled (DD), and chemically dependent (CD) individuals from southwestern Minnesota. The facility also has an adolescent treatment unit (ATU) serving emotionally disturbed adolescents from the state.

The center is under the general management of the Commissioner of Human Services and under the direct supervision of the chief executive officer, Gregory Spartz. As of March 1990, the total number of staff serving the facility was 683. The average resident population for fiscal years 1987-1989 is shown below:

	Average Resident Population				
Fiscal Year	MI	CD	DD	ATU	Total
1987	245	82	109	43	479
1988	246	48	90	58	442
1989	263	26	78	48	415

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. General Fund expenditures of the center for the years ended June 30, 1987, 1988, and 1989 are summarized below:

	1987	1988	1989
Salaries	$18,599,868	$19,070,243	$19,989,825
Current Expense	1,415,175	1,412,132	1,377,224
Repairs and Betterments	190,769	406,394	195,136
Special Equipment	32,758	138,040	33,475
TOTAL	$20,472,006	$21,269,739	$21,674,260

Source: Statewide Accounting System Allotment Balance within Appropriation Report at the September closing for the respective years.

II. CURRENT FINDINGS AND RECOMMENDATIONS

1. Current office employees are performing incompatible accounting functions for residents' accounts.

Internal controls over residents' accounts are weak because accounting duties are not properly separated. Residents deposit and withdraw cash from their accounts in the business office. Cash is maintained in a cash drawer and is accompanied by withdrawal slips and cash deposit receipts. The deposit and withdrawal transactions are recorded onto the TI-990 computer system. Two business office employees collect receipts and disburse cash to residents. These same employees post the receipt and disbursement transactions to the residents' accounts. On a monthly basis, one of these employees reconciles the accounting records to cash in the bank and the state treasury. Because these employees perform incompatible accounting functions, there is an increased risk of errors and irregularities in the residents' accounts.

A strong internal control environment requires the separation of cash handling form recordkeeping duties. Employees who disburse cash should not post cash disbursements to the accounting records. Likewise, persons who collect receipts should not post these transactions. A strong internal control environment also requires that persons responsible for reconciling the accounting records to cash be independent of those activities. Without properly segregated accounting duties, employees could both perpetrate and conceal errors and irregularities.

RECOMMENDATIONS

- **Employees who receive and disburse cash should not post receipt and disbursement transactions to the accounting records.**

- **The person who reconciles the accounting records to cash should be independent of the cash handling and recordkeeping functions.**

2. The center is not depositing and using certain receipts properly.

The center is using canteen funds to pay for employee recognition events. Minn. Stat. Section 16A.72 requires the center to deposit receipts from its patient stores and vending machines into the Social Welfare Fund. State law further requires that the Social Welfare Fund be used for the benefit of the residents. However, since May 1989, the center has diverted $50 per month of pop machine receipts into a separate human resource committee account. The center spent $550 from the account for employee recognition events. Center personnel informed us that these commissions are from the pop machines that only staff use. However, we believe that these commissions belong to the residents since the vending machine contract is part of the canteen operations. Employee recognition events may be funded by the center's state appropriation account. The special expense guidelines of the Department of Employee Relations should be followed for authority to fund such events.

RECOMMENDATIONS

- **The center should deposit all vending machine commissions into the Social Welfare Fund for the benefit of the residents. The human resource account should be closed and the remaining balance transferred into the proper Social Welfare Fund account.**

- **The center should include funding for employee recognition in the state's biennial budget. Payments should be approved through the special expense process.**

3. <u>The center is not following state purchasing procedures</u>.

The center is not using existing state contracts when purchasing items for resale at the canteen. They also are not requesting bids and developing contracts with vendors before purchasing supplies from vendors. Because the center does not follow state purchasing policies, they may not receive the lowest available prices.

The center is not using existing state contracts when purchasing items for resale at the canteen. The Department of Administration has established purchasing policies for state agencies. These policies require state agencies to use existing state contracts when purchasing items covered by a price contract. The center spent $136,000 for supplies for the canteen during fiscal year 1989. The center did not review the existing state contract to determine if the contract included the needed commodities. Without this review, the center cannot be sure if they received the lowest available prices.

The center is also not requesting bids or developing contracts with local vendors before purchasing supplies. During fiscal year 1989 the center made payments exceeding $1,500 to five vendors. These payments were for items on a recurring basis throughout the year. For instance, purchases of foodstuffs and bakery goods from one vendor totaled $16,000. These vendors were not selected through the bidding process. Minn. Stat. Section 16B.04 authorizes the Commissioner of Administration to determine policies and procedures for all state purchasing. The Commissioner of Administration has established requirements for purchasing in the Authority for Local Purchase and General Purchasing Procedures Manual 9-01. This manual outlines the rules which govern the competitive bidding requirements for procurement of materials and services through the Materials Management Division of the Department of Administration. It also establishes the requirements which allow local purchase authority for agencies to directly purchase certain supplies, equipment and services from a vendor. The general requirement is for all purchasing to be made through Administration unless the purchase qualifies under the agency's approved local purchasing authority. The local purchase authority for the center is $1,500. The purchases to the five vendors above exceeded their local purchase authority, but the center did not process these purchases through the Department of Administration. Because the center did not comply to state purchasing procedures, they may not have received the lowest possible prices.

Finally, the center did not establish a contract with the one vendor selected through the bidding process. In May 1989 the center requested bids from firms wishing to provide candy and tobacco products to the canteen. The center received bids and awarded future purchases to the lowest bidder. However, they did not establish a contract with the vendor. Because there was no contract, prices continually changed. The center could not determine the reason for the price increase. A contract with an escalating clause would prevent unnecessary price increases and require the vendor to justify any increase in prices. Without a contract, the vendor is not under any obligation to honor the prices established on the bids.

RECOMMENDATION

- **The center should follow state purchasing procedures when purchasing supplies for the canteen. These procedures require first reviewing existing state contracts, and developing contracts based on bids if existing state contracts are not applicable.**

4. The center is not operating the canteen efficiently.

The center does not consider all costs when evaluating the operation of the canteen. The center computes the net profit for the canteen by subtracting the cost of the merchandise sold from total sales. During fiscal year 1989 the canteen profits including vending machine commissions totaled $56,000. No other costs of operating the canteen, including salaries of state employees, were considered in determining annual net profit. The General Fund absorbed canteen employee costs of $130,000 for 1989. If the center considered the total operating cost of the canteen to include salary costs, there would have been a net loss of $70,000 in 1989. The General Fund is in effect subsidizing the activities of the canteen. The center should consider all costs including salary costs when analyzing the total operation of the canteen. By considering all costs, the center can determine if it is operating efficiency, or if some corrective measures need to be taken to improve the canteen.

Because of a decrease in resident population, the center transferred a resident group supervisor to administer the operation of the canteen. The salary for the supervisor, including state benefits, is $50,000. This salary contributes to the operating loss at the canteen and seems excessive for an employee supervising canteen activities. This individual is working out of her job classification, and we question someone of her skills and background serving as the canteen director.

The center has not considered alternative approaches to operating the canteen. Some alternatives to be considered include having volunteers and residents participate in the operation of the canteen or using the Blind Services Enterprises of the Department of Jobs and Training. We recognize the need for the canteen at the center. The residents need a service for purchasing toiletries, candy, and other items.

RECOMMENDATION

- **The center should work with the Department of Human Services central office and other regional treatment centers to develop a more efficient canteen operation.**

WILLMAR REGIONAL TREATMENT CENTER

1550 Highway 71, N.E. ■ Box 1128 ■ Willmar, Minnesota 56201 ■ (612) 231-5100

May 30, 1990

Ms. Renee Redmer
Audit Manager
Office of the Legislative Auditor
Veterans Service Building
St. Paul, MN 55155

Dear Ms. Redmer:

Thank you for the draft audit report dated May 8, 1990, for the three years ended June 30, 1989. We found your staff to be polite and helpful. I would like to respond to your findings and recommendations.

I. INCOMPATIBLE ACCOUNTING FUNCTIONS FOR RESIDENT ACCOUNTS
We have in place a system of check and balance relative to the accounting of cash and posting of transactions. The Senior Account Clerk is responsible for the disbursement of client funds, activity and amusement funds. She has the primary responsibility for waiting on clients when withdrawals are requested and posting client receipts. The Account Clerk assists this employee when waiting on clients at busy times or when the Senior is absent. The Account Clerk writes receipts, posts client withdrawals (pink slips), activity disbursements and amusement funds disbursements. These activities are clearly defined in each position description and will be monitored. We agree that an independent employee should reconcile the local accounting records to S.W.A. - effective immediately, the Business Manager will perform this function.

II. THE DEPOSITING OF CERTAIN RECEIPTS
A/B. Vending Machines/Employee Recognition: The Human Resource account will be closed and all future deposits of all vending machine commissions will be deposited to the amusement fund.

III. CANTEEN PURCHASING PROCEDURES
We recognize the fact that we do not utilize existing state contracts for many canteen purchases. Canteen is an entity that generates profits which are used to fund the activities of our recreational program. What we do though, is find the most competitive price realizing that our clients have limited funds. We do this by the following methods:

A. Using state contracts - in particular the food contract with Kraft American (this contract has limited food products for resale).
B. Competitive bidding of candy, nuts/chips, fruit drinks, and products with local jobbers (5 vendors sent bid forms on 5-21-90 for FY '91).
C. Spot checking the three area grocery stores every 6 months for resale items like buns, hot dogs, hamburger and rolls.
D. Spot checking the market for grooming supplies and inexpensive novelty items.

This process was discussed with Mr. Jim Kinsey, Purchasing Manager for the Department of Administration, Materials Management Division, on 5-14-90. He felt the canteens are unique operations in that they don't lend themselves to the pure competitive bidding requirements as spelled out in the Purchasing Procedure Manual 9-01. Currently, the Department of Human Services is working with the Materials Management Division, D.O.A., in securing an exemption to the competitive bidding requirements for the purchase of resale items for the canteen.

IV. <u>OPERATION OF AN EFFICIENT CANTEEN</u> (Coffee Shop)
Programs and services provided by the Coffee Shop reach <u>all</u> areas of WRTC. We continually attempt to enhance and improve the efficiency of the Coffee Shop, and to provide more and better services for our clients.

The Coffee Shop provides a worksite for five to six patients under the Patient Pay Program at any given time. Each patient works an average of 10.5 hours per week. WRTC is also working with the Willmar Migrant Council and has employed a high school-age Hispanic student (paid by the Migrant Council), who works approximately five hours per week in the Coffee Shop. The local high school provides two students in their Work Experience Program in the Coffee Shop for 1.25 hours per day, four days per week. The Coffee Shop also employs students under the Federal Work-Study Grant program. This summer, as last summer, we have a handicapped student working in the Coffee Shop through the Community Action Heartland Program.

The Coffee Shop has had volunteer help in the past, and the Volunteer Coordinator is currently recruiting other volunteers to serve in our Coffee Shop. A job description has been developed to assist in finding appropriate volunteers.

The Coffee Shop is infinitely more than just a place for patients to purchase candy, cigarettes and toiletries. It is a key therapeutic part of the treatment process. The employees all serve as job coaches in the training of the mentally ill patients in our Patient Pay Program. All patients who use the Coffee Shop benefit from the social skills and social interactions learned in the Coffee Shop atmosphere. Some of these skills include money management, ordering food, table manners, waiting in line, and behaving appropriately in a "public" place.

The Coffee Shop is open evenings, weekends and holidays to serve the patients. It gives patients the opportunity for a respite from their regular ward or residence. We believe this is essential in the patients' treatment. This also gives visitors and friends a place to visit patients in a more relaxed, casual atmosphere.

In addition to supervising the Coffee Shop and its patrons, the employees also oversee the leisure area of the Rehabilitation Building. This is an area where many patients sit and visit, play pool and watch television. Coffee Shop personnel have special activities and holiday events for the entire treatment center, including musical programs and even a special birthday club (each patient is made to feel special on his/her birthday!).

> *The Coffee Shop is a unique and essential service to WRTC patients and to the Rehabilitation Services Department. The profits received by the Coffee Shop directly benefit over 400 handicapped patients at the Treatment Center. These funds enable Rehabilitation Services to purchase such things as recreational vans and buses, television sets with cable services, craft and food supplies for numerous groups, videos, newspapers, recreational activities (such as bowling, movies), recreational equipment (such as canoes, bicycles, outdoor equipment), and so on. The Coffee Shop is an integral part of the quality services that this facility provides for its patients.*

If I can be of any further help, feel free to contact us.

Sincerely,

Wayne J. Nelson
Assistant Administrator

Approved:
Gregory G. Spartz
Chief Executive Officer

SG:mpr

cc: Steve Grams