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# MINNESOTA CORRECTIONAL FACILITY - SAUK CENTRE
# FINANCIAL AUDIT
# FOR THE FOUR YEARS ENDED JUNE 30, 1989

JULY 1990


Financial Audit Division
Office of the Legislative Auditor
State of Minnesota



90-37



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

# MINNESOTA CORRECTIONAL FACILITY - SAUK CENTRE

## FINANCIAL AUDIT FOR THE FOUR YEARS ENDED JUNE 30, 1989

Public Release Date: July 6, 1990 No. 90-37

## OBJECTIVES:

- EVALUATE INTERNAL CONTROL STRUCTURE: Operating receipts, payroll, contracts, consumable inventory control, social welfare receipts and expenditures, and Department of Correction's training academy receipts.
- TEST COMPLIANCE WITH CERTAIN FINANCE-RELATED LEGAL PROVISIONS.

## CONCLUSIONS:

We found six facility areas where the internal control structure needed improvement:

- The facility developed an inappropriate relationship with the Minnesota Home School Foundation.
- Resident monthly social welfare statements did not show all transactions.
- Duties within the social welfare system were not adequately separated.
- The facility needs to separate duties involved with the current expense contingent account.
- Payroll duties are inadequately separated.
- Food inventory duties are inadequately segregated.

We reported on two areas where the facility had not complied with finance-related legal provisions.

- The facility should refrain from using the current expense contingent account to make payments which should be processed through the statewide accounting system.
- Employees do not document prior approval for working overtime.

We also found one area where the Department of Corrections (DOC) internal control structure needed improvement.

- DOC training academy staff do not properly control receipts.

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

Mr. Orville B. Pung, Commissioner
Department of Corrections

Mr. Dale E. Ulrich, Superintendent
Minnesota Correctional Facility - Sauk Centre

Audit Scope

We have conducted a financial related audit of the Minnesota Correctional Facility - Sauk Centre as of and for the four years ended June 30, 1989. Our audit was limited to only that portion of the State of Minnesota financial activities attributable to the transactions of the Minnesota Correctional Facility - Sauk Centre, as discussed in the Introduction. We have also made a study and evaluation of the internal control structure of the Minnesota Correctional Facility - Sauk Centre in effect at January 31, 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 transaction of the Minnesota Correctional Facility - Sauk Centre are free of material misstatements.

As part of our study and evaluation of the internal control structure, we performed tests of the Minnesota Correctional Facility - Sauk Centre'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.

Minnesota Correctional Facility - Sauk Centre is affiliated with a separate nonprofit foundation. The foundation maintains a board of directors who oversee foundation activities and are responsible for some policy-making decisions. We did not audit the foundation. We did, however, review the relationship with the foundation and performed limited testing of the administrative services provided by facility personnel to the foundation.

In March 1988, the Department of Corrections opened a training academy at the Sauk Centre facility. The center operates to provide a cost-effective method of providing necessary topics and hours of training that will enable department staff to meet department and national standards. Academy disbursements are handled through the central office, and we did not audit them. We only audited the academy receipts, which are processed by the facility.

Management Responsibilities

The management of the Minnesota Correctional Facility - Sauk Centre 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 judgments 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:

- operating receipts,
- payroll,
- contracts,
- consumable inventory control,
- social welfare receipts and expenditures, and
- training academy receipts (Department of Corrections operation).

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 control risk.

Conclusions

Our study and evaluation disclosed the conditions discussed in findings 1-3, and 5-9 involving the internal control structure of the Minnesota Correctional Facility - Sauk Centre. 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 judgment, 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 or 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 none of the reportable conditions described above is a material weakness.

We also noted an additional matter involving the internal control structure and its operation that we reported to the management of the Minnesota Correctional Facility - Sauk Centre in findings at the exit conference held on April 2, 1990.

The results of our tests indicate that, except for the issues discussed in findings 4-6, and 9, with respect to the items tested, the Minnesota Correctional Facility - Sauk Centre 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 Minnesota Correctional Facility - Sauk Centre had not complied, in all material respects, with those provisions.

This report is intended for the information of the Legislative Audit Commission and management of the Minnesota Correctional Facility - Sauk Centre. This restriction is not intended to limit the distribution of this report, which was released as a public document on July 6, 1990.

We would like to thank the Minnesota Correctional Facility - Sauk Centre staff for their cooperation during this audit.

James R. Nobles
Legislative Auditor

John Asmussen, CPA
Deputy Legislative Auditor

END OF FIELDWORK: March 28, 1990

REPORT SIGNED ON: June 29, 1990

MINNESOTA CORRECTIONAL FACILITY -- SAUK CENTRE

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AUDIT PARTICIPATION

The following members of the Office of the Legislative Auditor prepared this report:

| | |
|---|---|
| John Asmussen, CPA | Deputy Legislative Auditor |
| Warren Bartz, CPA | Audit Manager |
| David Poliseno | Auditor-in-Charge |
| Marla Conroy, CPA | Staff Auditor |
| Jean Mellett, CPA | Staff Auditor |

EXIT CONFERENCE

The findings and recommendations in this report were discussed with the following staff on April 3, 1990.

MCF - Sauk Centre

| | |
|---|---|
| Dale Ulrich | Superintendent |
| Dennis Rykken | Assistant Superintendent |
| Loren Williams | Business Manager |
| Alan Walz | Accounting Supervisor |
| William Klundt | Education Director |
| Warren Higgins | Program Director |
| Hank Kessler | Institution Community Relations Coordinator |

Department of Corrections

| | |
|---|---|
| Peter Maurer | Internal Audit Director |
| Douglas Applegren | Training Academy Director |

# I. INTRODUCTION

The Minnesota Correctional Facility - Sauk Centre provides custody, evaluation, and treatment for male juvenile offenders from 64 counties in the western region of the state and for all female juvenile offenders committed by the courts to the commissioner of Corrections. The facility also provides detention and predisposition evaluations for the juvenile courts. The facility houses approximately 70 boys and 4 girls between the ages of 12 and 18. The facility has an open campus with living quarters consisting of two-story cottages each housing 20 residents.

The facility's mission focuses on protecting the public and providing treatment programs for residents. The treatment centers on establishing individual goals for each resident and providing programming to accomplish these goals. Staff work to make attitudinal and behavioral changes in residents through academic/remedial education, individual counseling, and group problem-solving.

The Sauk Centre facility's operations are primarily financed through General Fund appropriations made directly to the Department of Corrections, which is responsible for maintaining, controlling, and transferring the necessary funds to the appropriate facility accounts. Other funding sources include federal grants, preadjudication/detention fees, and social welfare receipts. Disbursements for fiscal years 1986-1989 are shown below:

| | Year Ended June 30 | | | |
|---|---|---|---|---|
| | 1989 | 1988 | 1987 | 1986 |
| Operating Disbursements | | | | |
| Payroll | $3,458,954 | $3,318,199 | $3,117,249 | $3,188,356 |
| Administrative Disbursements | 263,896 | 407,699 | 241,918 | 314,470 |
| Supplies/Equipment | 369,825 | 364,812 | 285,602 | 328,967 |
| Miscellaneous Disbursements | 4,032 | 5,685 | 4,893 | 660 |
| Operating Disbursements | $4,096,707 | $4,096,395 | $3,649,662 | $3,832,453 |
| Social Welfare Disbursements | 68,829 | 61,186 | 64,310 | 60,754 |
| Total Disbursements | $4,165,536 | $4,157,577 | $3,713,972 | $3,832,207 |

Source: Department of Finance Cash Basis Expenditure Reports for the years ended June 30, 1986-1989.

## II. CURRENT FINDINGS AND RECOMMENDATIONS

### 1. The facility developed an inappropriate relationship with the foundation.

We question the relationship between the Minnesota Home School Foundation and the facility. Foundations normally function as a decision-making body, separate and distinct from the entity they represent. We feel that no separation exists, and the decisions are made by the facility.

The foundation was established in October 1970 for the purpose of receiving donations, contributions, grants, and gifts, for the use and benefit of the residents at the facility. The facility was called the Minnesota Home School at that time. Six members comprise the board of directors, of which three can vote. The three voting members also are officers of the Citizens Advisor Committee for the facility. The foundation raises funds by sponsoring an annual smelt fry, recycling aluminum cans, and soliciting donations from organizations and churches. The foundation spends the funds on cottage activities, recreation functions, religious activities, and Christmas programs. During the years 1986 to 1989, the foundation raised an average of $4,265 per year and spent an average of $3,867.

The foundation meets annually, generally to review the annual financial report and sign bank signature cards. The only daily involvement by the foundation members is to cosign checks. The facility staff perform all other functions. A part-time state employee, who reports to the superintendent, oversees the operations.

The state employee also coordinates the annual Christmas fund drive of legion organizations. In October of each year she signs and sends letters to every legion post in Minnesota soliciting funds for the residents' Christmas program. In doing so, she uses the facility's letterhead and requests that the checks be sent to the facility, but the checks are made payable to the foundation. She allocates the unused funds among the various foundation accounts for activities during the rest of the year. This process may confuse contributors as they may not be fully aware of who is doing the fundraising -- the foundation or the facility.

Various other state employees perform foundation activities. A minister, who is under contract to the facility, solicits funds from area churches. The foundation receives the contributions and deposits them into the foundation's religion account to be used by the facility's religion department. The facility's recreation department collects and recycles aluminum cans for cash. The foundation deposits the proceeds into the foundation's recreation account to be used by the facility's recreation department.

Based on our discussion with the facility's management, we are not convinced that the facility needs a foundation. The facility is empowered to solicit and expend gift funds directly, without using an intermediary foundation. Facility gifts could be accounted for on the statewide accounting system and be managed without the involvement of a separate foundation board. However, if the facility elects to maintain its relationship with the foundation, the foundation should:

- enter into a formal agreement with the facility disclosing each party's rights and responsibilities;
- properly record all receipts and disbursements in the foundation's records;
- properly segregate the functions so no individual has complete control of the operations;
- only allow state employees a limited role in the foundation's activities; and
- not allow checks to be signed in advance of incurring the expenditures.

Foundations generally function outside of the Statewide Accounting System (SWA) and outside the state's regulations governing receipts and disbursements. However, the lack of a separate and distinct relationship and the involvement of state employees forces the state into a fiduciary role. For most purposes, no foundation exists. The foundation's activities clearly represent the facility's decisions and could be accounted for as state funds.

RECOMMENDATIONS

- **The facility should resolve the problems presented by its relationship with the foundation. We believe the problems are best remedied by dissolving the foundation and transferring the current balance to the facility social welfare account.**
- **Future activities of this type should be handled through the social welfare accounts.**

2. Residents' monthly social welfare statements do not show all transactions.

The residents' monthly social welfare statements do not accurately reflect all the transactions that occurred during the month. In accordance with Minn. Stat. Section 241.08, the facility maintains individual accounts for the custody of all money belonging to the residents. The statewide accounting system maintains the total resident account balance. The residents may deposit and withdraw funds from their individual accounts. The business office posts the individual transactions to the respective accounts daily. Good internal controls require the maintenance of adequate records for all financial activities. Proper documentation provides an audit trail to ensure that all transactions are accurate, authorized, and recorded properly.

We attempted to trace disbursement transactions to the resident statements and found three months where the statements did not show all disbursement details. Although the statement's ending balance was accurate and reflected these disbursements, some details were not provided. We found proper documentation on file, including resident signatures, supporting these disbursements.

The Correctional Management Information System records all social welfare activity. The computer system generates the resident statements monthly and residents receive a copy. Two computer functions create the monthly statement file. The first function updates each resident's master account balance with transactions processed during the cycle. The second function copies all transactions recorded in a cycle from the daily file to the monthly file. The computer operator must initiate each process separately. After this process has been completed, the daily file is deleted to permit the recording of the next day's activities. In the cases where the transaction detail was missing, the monthly balance was updated, but the system did not copy the detail to the monthly file. Residents' money was not lost, nor were their account balances inaccurate.

RECOMMENDATION

- **Procedures should be developed to ensure that the transaction detail is updated to the monthly file.**

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

The individual responsible for the social welfare accounting also performs the monthly reconciliations to a bank statement and statewide accounting (SWA) records. A $3,000 imprest checking account is used for the residents' immediate cash needs and is maintained at a local bank. The same individual prepares the checks and has also signed some of them. The bank did not authorize the individual to sign checks, although the account requires two other signatures on each check. Controls would be improved if these duties were conducted by someone that did not have access to related accounting records.

The facility also does not ensure that all social welfare receipts are deposited. The business office prepares social welfare receipt forms, but they do not compare these receipt forms to the deposit slips. Checks may be lost and remain undetected without an independent reconciliation of the receipt form totals and deposit totals.

The business office receives, records, and deposits various types of receipts. A business office employee receives the money and prepares the social welfare receipt forms. This employee gives the money to the account clerk for recording. The clerk restrictively endorses the checks and prepares the deposit slips. Although the business office prepares a receipt listing, an independent check to ensure all receipts are deposited is not done.

Allowing one person to have responsibility over so many duties within a specific area, increases the risk that an error or irregularity will occur and not be detected. Separation of duties also helps to prevent errors that may occur in normal business by providing a review of each transaction from more than one individual. Appropriate procedures exist, but they need to be enforced. The accounting supervisor also could become more involved in the reconciliation process.

RECOMMENDATIONS

- The facility should improve internal control over the social welfare system by:
  - having someone independent of the social welfare accounting duties prepare the monthly reconciliations to the bank statement and to statewide accounting records; and
  - not allowing the same person who prepares checks to sign them.
- An independent verification should be made of the amounts receipted to the amounts deposited.
- Checks should be restrictively endorsed immediately upon receipt.

4. <u>The canteen does not bid out candy purchases</u>.

The resident canteen purchases goods for resale from two local vendors without soliciting bids. The purchases routinely exceeded the $100 local purchase authority. During fiscal year 1989, canteen staff placed 52 candy orders totaling $6,522. Thirty of those orders exceeded MCF-Sauk Centre's authority for local purchases. One purchase exceeded the $100 per order limit by $478.65. The facility did not review existing state contracts to determine if the contracts included the needed commodities. Canteen staff did not solicit bids for candy purchases, but alternated purchases between two local vendors. MCF-Sauk Centre staff thought that items bought for resale were exempt from competitive bidding requirements. Failure to follow proper competitive bidding procedures can result in higher costs to facility residents.

The Department of Administration provides purchasing guidelines in Procurement Bulletin 7-206. These procedures were established to ensure that material purchases are procured through Administration unless addressed by an agency's approved authority for local purchase. Purchases made by agencies under the authority for local purchase must meet competitive bidding requirements. However, only one quotation is required if the purchase does not exceed $100. MCF-Sauk Centre's approved authority for local purchase is $100.

RECOMMENDATION

- **MCF-Sauk Centre should follow state purchasing procedures when purchasing supplies for the canteen. The procedures require reviewing existing state contracts and developing contracts based on bids if existing state contracts are not applicable.**

5. The facility needs to improve the administration of the current expense contingent account.

The business office uses its current expense imprest cash account for items which are to be paid through the statewide accounting system. The facility maintains $1,000 in the current expense account which is comprised of a checking account and some cash on hand. The facility inappropriately uses the account to pay for various expenses, such as subscriptions, registrations, and state claims. 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 statewide accounting system.

Minn. Stat. Section 241.13 establishes the authority for the facility's current expense contingent 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.

The individual responsible for the current expense accounting also performs the monthly reconciliations to the bank statement and statewide accounting (SWA) records. Controls would be strengthened if someone other than the person that maintained the account reconciled it. Current procedures allow for proper segregation of duties, but they have not been followed. The accounting supervisor also needs to become more involved in the reconciliation process.

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

RECOMMENDATION

- **The facility should refrain from using the current expense contingent account to make payments which should be processed through the statewide accounting system.**

- **Someone independent of the current expense checking account should prepare the monthly bank reconciliation.**

6. PRIOR FINDING NOT RESOLVED: Employees do not document prior approval for working overtime.

Staff regularly do not document advance approval of overtime. During the pay period ending February 13, 1990, 24 employees did not document that overtime worked was approved in advance. Department of Finance Operating Policy and Procedure 07:04:22 requires agencies to approve a written request for overtime prior to an employee's working overtime. After the employee works the overtime, the hours are to be reported on a Request for Leave and Overtime form and also on the Biweekly Time Report. Without the documentation, there is no assurance that the overtime was actually approved. Alternative evidence, such as an approved work schedule, would be acceptable.

The problem was discussed in our prior audit report and we were told the recommendation was implemented. However, we still found that some evidence to support the time reports was lacking. The supervisors now must rely on their memory in order to approve time reports, because they have no record during the pay period.

RECOMMENDATION

- Supervisors should document the approval of overtime in advance of the employee working it.

7. Payroll duties are inadequately segregated.

Both the MCF-Sauk Centre business manager and the accounting supervisor have authorization to perform all personnel and payroll transactions. The authorizations were intended to be a backup when other employees were on leave. However, the accounting supervisor has performed both personnel (signing Employee Action Forms) and payroll (inputting payroll, signing precertification and certification reports) functions. These duties are incompatible. MCF-Sauk Centre could change the authorizations so that both the business manager and the accounting supervisor are not authorized to perform both payroll and personnel functions. In addition, the accounting supervisor signs precertification and certification reports as part of his regular duties. The facility could strengthen controls by allowing the accounting supervisor to only input payroll transactions and not approve personnel documents, and allowing the business manager to only approve personnel documents.

RECOMMENDATION

- MCF-Sauk Centre should ensure that payroll duties are adequately segregated.

8. Consumable food inventory duties are inadequately segregated.

Food inventory duties are inadequately separated. The food inventory custodian maintains both the inventory records and performs spotchecks.

Someone other than the individual in custody of inventory needs to perform the inventory counts. Without this separation of incompatible functions, the custodian could be in a position to conceal both intentional and unintentional errors without detection.

A significant problem concerned the meat inventory. In January 1990, facility staff took a physical inventory of meat and adjusted the meat records accordingly. In one instance, staff adjusted the hamburger inventory by more than 1200 pounds. The inaccuracy of the meat records resulted from a combination of factors. Apparently the person responsible for the meat inventory records did not receive all requisitions and receiving reports. Also, the facility's meat vendor regularly overshipped items and supplied the facility with some meat that was inedible. The records did not reflect these occurrences. The facility recently changed meat vendors and rearranged meat inventory duties. However, facility staff need to strengthen controls over inventory by assigning someone independent of the custodial function to spotcheck food inventory.

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

RECOMMENDATION

- **The facility should not allow one individual to have complete control of the food inventory process. Someone other than the inventory employees should complete periodic inventory counts.**

## DEPARTMENT OF CORRECTIONS TRAINING ACADEMY

9. <u>DOC Training Academy staff do not properly control receipts</u>.

The Department of Corrections (DOC) operates a preservice training center at MCF-Sauk Centre. The academy operates to provide a cost-effective method of providing necessary topics and hours of training that will enable department staff to meet department and national standards. The academy functions to provide new correctional counselors with a three week training program and all new department employees with a three day orientation program. The academy opened in March 1988.

Our audit of the academy focused only on the receipts generated at the academy, because MCF-Sauk Centre staff assist in processing receipts. Academy expenditures are processed fully through the DOC central office. The academy generates most of its receipts from pop/coffee sales and training services to nondepartment employees. Receipts from May 1988 to February 1990 totaled $19,350. Our audit disclosed the following problems:

- Academy staff collect receipts at the academy and deliver them to the facility's business office for deposit, but never verify that the deposit was made. Academy staff also do not prepare a listing of the daily registration receipts to be compared to later deposits. Weekly, the academy collects about $300 to $400 from "pop" machines and registration fees. The academy does not prepare a listing of the receipts sent to the business office. The business office deposits the receipts with the facility's daily receipts in the local bank. The business office receives the bank deposit slip, prepares a state deposit slip and sends them down to the DOC central office in St. Paul. The academy staff at the facility do not receive copies of either document and are unaware of any inaccurate or missing deposits.

  Without the verification by the academy staff, there is no assurance that the deposits were properly made. Controls would be strengthened if the business office, when the money is brought over, gave the academy a receipt, which the academy could compare to the daily listing and then send to the central office for comparison with the deposit slips. Another option would be for the business office to send the deposit slips to the academy staff who could compare them to the amount brought over and then send them to the central office.

- Academy staff do not have specific duties assigned to them. Generally, the director and a clerical person perform the accounting functions. However, neither person has been assigned specific duties within the process. The staff collect, record, and deposit receipts; bill users for academy services; and monitor outstanding accounts. During any day, either person may perform one or all of those functions. The academy does not have a review process in place to ensure that the work performed by the other was accurate and/or proper.

  Allowing one person to have responsibility over so many duties within a specific area, increases the risk that an error or irregularity will occur and not be detected. Separation of duties also helps to prevent errors that occur in normal business by providing a review of each transaction from more than one individual. Controls would be strengthened by assigning specific duties to each individual. The director needs to assume a supervisory role and review the work of the other employee.

- The academy purchases incidental items with cash collected from "pop" sales, since they never requested authority from the Department of Finance to use an imprest cash account. Rather, they purchase small dollar items and pay for them with the cash collected from the vending machines. The academy staff empty the machines, purchase the items needed, and deposit the remaining money through the business office. The staff retained all of the receipt forms for the purchases, but they never recorded the purchases through the SWA system.

Minn. Stat. Section 15.191 allows agencies to make minor purchases out of an imprest cash account. The academy could request authority to make minor purchases out of an imprest cash account instead of from the vending machine sales. This will ensure that all receipts are deposited intact and all disbursements are properly accounted for.

RECOMMENDATIONS

- Academy staff should prepare a listing of their daily registration receipts. They also should verify that the amount transferred to the business office was actually deposited.

- Duties within the receipt process should be specifically assigned to each staff member to ensure that no one has complete control of the process.

- The academy should request authority from the Department of Finance to use an imprest cash account for making minor purchases.

Minnesota Department of Corrections
Minnesota Correctional Facility Sauk Centre

June 18, 1990

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

Dear Mr. Nobles,

As requested in a letter dated June 6, 1990 from Warren Bartz, Audit Manager, I am submitting the following responses to the findings and recommendations contained in the Legislative Audit report for four years ending June 30, 1989.

Audit Finding 1: The facility established an inappropriate relationship with the foundation.

Recommendations: "The facility should resolve the problems presented by its relationship with the foundation. We believe the problems are best remedied by dissolving the foundation and transferring the current balance to the facility social welfare account."

"Future activities of this type should be handled through the social welfare accounts."

Response: On April 19, 1990, this facility met with the Board of Directors of the Minnesota Home School Foundation to discuss the options regarding this non-profit corporation. The decision was made at that meeting to procede with the dissolution of the corporation and to deposit the balance of the funds with the Social Welfare account in the Statewide Accounting System. At present, a local attorney is working out the legal details of dissolving this non-profit corporation in a gratis arrangement. The facility Accounting Supervisor will deposit the balance of the foundation's funds effective with the start of the new fiscal year. This deposit should be accomplished by no later than July 31, 1990.

Future receipts and disbursements will be processed through the social welfare account within the Statewide Accounting System.

Audit Finding 2: Residents monthly social welfare statements do not show all transactions.

Recommendation: "Procedures should be developed to ensure that the transaction detail is updated to the monthly file."

Audit Reponse: A procedural change was implemented at the completion of the audit that established a checklist for following the steps in the daily transaction posting. The use of this checklist should reduce or eliminate the possibility for missing any steps of the posting process. On April 19, 1990 a memorandum from the Accounting Supervisor to the Account Clerk responsible for residents' accounts was issued detailing this procedure change, and it also advised of the need for a note of explanation on the residents' statements whenever the transaction detail is lost through an Inmate Accounting System computer error.

Celebrate MINNESOTA 1990



BOX C ● SAUK CENTRE, MINNESOTA 56378 ● 612-352-2296 ● NCIC IDENTIFIER MN073015C

**Audit Finding 3:** Duties within the social welfare system are not adequately separated.

**Recommendations:** "The facility should improve internal control over the social welfare system by:

- having someone independent of the social welfare accounting duties prepare the monthly reconciliations to the bank statement and to statewide accounting records; and
- not allowing the same person who prepares checks to sign them."

"An independent verification should be made of the amounts receipted to the amounts deposited.

"Checks should be restrictively endorsed immediately upon receipt."

**Response:** The facility's policy regarding imprest checking accounts requires that an individual other than the one responsible for the account will reconcile the bank statement. It also states that an individual will not be authorized to sign checks from the account for which they maintain the record. The Accounting Supervisor has reminded the Account Clerk and the Senior Account Clerk of this policy, and the Accounting Supervisor will make periodic checks of the records to insure adherence to the stated policy.

A procedure will be implemented requiring the Senior Account Clerk, who is the primary person receipting residents' deposits, to verify the actual deposit with the amount receipted on a weekly basis. This procedure change will go into effect immediately.

A procedure was implemented at the close of the audit requiring that the individual receipting checks place a restrictive endorsement on each check when it is receipted. The individual responsible for this task is the Senior Account Clerk.

**Audit Finding 4:** The canteen does not bid out candy purchases.

**Recommendation:** "MCF-Sauk Centre should follow state purchasing procedures when purchasing supplies for the canteen. The procedures require reviewing existing state contracts and developing contracts based on bids if existing state contracts are not applicable."

**Response:** Due to department-wide implications of this audit finding, Mr. Peter Maurer, Accounting Director for the Department of Corrections, made a formal request to the Department of Administration, Materials Management Division for an exception from the purchase limits for department canteen operations. On May 8, 1990, James P. Kinzie, Purchasing Section Manager granted this exception to all Department of Corrections canteen operations. A copy is attached.

**Audit Finding 5:** The facility needs to improve the administration of the current expense contingent account.

**Recommendations:** "The facility should refrain from using the current expense contingent account to make payments which should be processed through the statewide accounting system."

"Someone independent of the current expense checking account should prepare the monthly bank reconciliation."

**Response:** This facility has used caution whenever making payments from the current expense contingent account. However, it is often in the best interests of the state to make certain payments through a contingent account check when the vendor is requiring immediate or pre-payment and a "pull warrant" procedure would be too time consuming and expensive. The payment of claims from this contingent account were for claims of facility residents, and a statewide accounting system vendor payment would be inappropriate, considering their legal status.

The section of Minnesota statutes pertaining to contingent accounts refers to such items as freight, produce, livestock and discounting bills, all of which we can conveniently pay through the statewide accounting system. This underscores the confusion concerning legal and appropriate use of the contingent fund. In the course of compiling a response to a Department of Finance travel and imprest cash audit in June of last year, we requested a clarification of what were considered to be appropriate expenditures from this fund. We were informed that the Department of Finance was developing a policy statement that was forthcoming. To date, this policy has not been finalized. Once this issue has been clarified by the Department of Finance, we will update our procedures to meet their guidelines. No time line can be established for implementation.

The first paragraph of our response to audit finding 3 also covers the second part of this finding.

**Audit Finding 6:** PRIOR FINDING NOT RESOLVED: Employees do not document prior approval for working overtime.

**Recommendation:** "Supervisors should document the approval of overtime in advance of the employee working it."

**Response:** On April 12, 1990 a memorandum was distributed to all supervisors directing them to initiate an "Approval of Overtime" form at the time that any overtime is approved or assigned. This procedural change places the responsibility on the supervisor rather than the employee for the preparation of the "Overtime Request Form". In the absence of the supervisor, the Administrative Duty Officer will be responsible for initiating the form, routing it to the supervisor and then the employee. By placing the responsibility for originating the "Overtime Request Form" on the supervisor, this procedure more closely represents our actual practice, since the majority of overtime worked at this facility is assigned by the supervisor rather than being requested by the employee. The payroll clerk will monitor the adherence to this policy. This procedure change was effective immediately.

**Audit Finding 7:** Payroll duties are inadequately segregated.

**Recommendation:** "MCF-Sauk Centre should ensure that payroll duties are adequated segregated."

**Response:** On April 23, 1990, the Delegation of Authority for the Accounting Supervisor was changed by deleting the authority to sign Employee Action Forms. The Accounting Supervisor must remain as back-up for payroll input, since he is the only individual other than the Senior Account Clerk trained in payroll processing. In the course of the audit, the issue that was addressed was that on the occasions when the Accounting Supervisor did input payroll, an authorized signature of someone else be used on the pre-certification and certification reports.

Prior to receiving the audit report, we were not aware of the involvement of the Business Manager in this finding. While the Business Manager has clearance for all payroll procedures, he does not actually do payroll preparation or input. In the absence of the Accounting Supervisor or when the Accounting Supervisor does payroll, the Business Manager signs the payroll pre-certification and certification reports. He is the back-up signature for EAFs only when the Superintendent or Assistant Superintendent are not available.

A unique problem exists in smaller sized operations, such as ours. When the ideal separation of duties is strictly enforced there no longer are a sufficient number of individuals with the expertise to fully understand what they are attesting to with their signature. This allows a situation to develop that may be more of a problem than the one we set out to solve.

Audit Finding 8: Consumable food inventory duties are inadequately segregated.

Recommendation: "The facility should not allow one individual to have complete control of the food inventory process. Someone other than the inventory employees should complete periodic inventory counts."

Response: A memorandum distributed to the Food Service Director and the Assistant Superintendent on April 10, 1990 directed them to designate an individual other than the one who places food orders to verify the receipt of that order. This should provide the segregation of duties regarding purchase and receiving. The inventory counts will be conducted by the Assistant Superintendent at least once annually, to be conducted prior to the annual performance evaluation of the Food Service Director. These changes are effective immediately.

Audit Finding 9: DOC Training Center staff do not properly control receipts.

Recommendations: "Academy staff should prepare a listing of their daily registration receipts. They also should verify that the amount transferred to the business office was actually deposited."

"Duties within the receipt process should be specifically assigned to each staff member to ensure that no one has complete control of the process."

"The academy should request authority from the Department of Finance to use an imprest cash account for making minor purchases."

Response: The facility Accounting Supervisor assisted the DOC Training Center staff in establishing a daily receipts log for the purpose of recording and verifying receipts. The deposit procedures were altered so that the deposit slips are returned to the Training Center Director for verification prior to submission to the Central Office accounting unit.

Billing and receipting duties were modified to provide for review and signature of the Training Center Director, in order to segregate duties and authority.

Authority for an imprest cash system was requested by the Department of Corrections Fiscal Director, and was approved on April 10, 1990 by the Department of Finance. This imprest cash system is in place and reimbursement procedures are being clarified.

**Conclusion:** As you may note, throughout this response to the audit report for MCF-Sauk Centre, the majority of issues raised by the audit team have already been resolved. Issues that remain are:

1. Dissolution of the Minnesota Home School Foundation. This procedure is in process and should be completed by December 31, 1990. A local attorney has been engaged to assist us in this endeavor. I will be the person responsible for the completion of this task.

2. Deposit of the balance of funds from the Minnesota Home School Foundation into the Social Welfare account. This task will be completed by July 31, 1990 by Alan J. Walz, facility Accounting Supervisor.

3. Clarification of the Current Expense contingent account expenditures. This completion date for this task remains open, since it is dependent upon the Department of Finance policy release. Alan Walz will be the responsible person.

We wish to thank your office for their efforts in conducting this audit.

Sincerely,

Dale E. Ulrich
Superintendent, MCF-Sauk Centre

Attachment