

**MINNESOTA CORRECTIONAL FACILITY -
LINO LAKES
FINANCIAL AUDIT
FOR THE TWO YEARS ENDED JUNE 30, 1989**

SEPTEMBER 1990

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

90-67

MINNESOTA CORRECTIONAL FACILITY - LINO LAKES

FINANCIAL AUDIT FOR THE TWO YEARS ENDED JUNE 30, 1989

Public Release Date: September 21, 1990

No. 90-67

OBJECTIVES:

- EVALUATE INTERNAL CONTROL STRUCTURE: Facility receipts, industry sales and receipts, industry inventory, consumable inventory, employee payroll, imprest cash, social welfare activities, and inmate payroll.
- TEST COMPLIANCE WITH CERTAIN FINANCE-RELATED LEGAL PROVISIONS.

CONCLUSIONS:

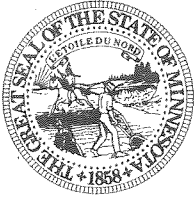
We could not evaluate the internal control structure of fiscal year 1988 industry sales, because job costing documentation could not be located.

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

- The mission and purpose for the industry program lack clarity and continuity.
- Internal controls over industry raw material inventories are inadequate.
- Quality control in the print shop needs improvement.
- Internal controls over inmate payroll needs improvement.
- The industry imprest checking account is not reconciled timely.
- Internal controls over food, clothing, and pharmacy inventories are inadequate.
- Internal controls over receipts require improvement.
- MCF-Lino Lakes management improperly extended credit to employees for meal ticket sales.

We found that the facility had complied with finance-related legal provisions.

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. Gothriel LaFleur, Superintendent
Minnesota Correctional Facility - Lino Lakes

Audit Scope

We have conducted a financial related audit of the Minnesota Correctional Facility - Lino Lakes as of and for the two fiscal 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 - Lino Lakes, as discussed in the Introduction. We have also made a study and evaluation of the internal control structure of the Minnesota Correctional Facility - Lino Lakes 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 transactions of the Minnesota Correctional Facility - Lino Lakes 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 - Lino Lakes'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 Minnesota Correctional Facility - Lino Lakes 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;

Senator John E. Brandl, Chairman
Members of the Legislative Audit Commission
Mr. Orville B. Pung, Commissioner
Mr. Gothriel LaFleur, Superintendent
Page 2

- 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:

- facility receipts,
- industry sales and receipts,
- industry inventory,
- consumable inventory,
- employee payroll,
- imprest cash,
- social welfare activities, and
- inmate payroll.

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.

Scope Limitation

We were unable to audit some fiscal year 1988 industry sales transactions of the Minnesota Correctional Facility - Lino Lakes because financial records could not be located. Job costing documentation has been misplaced and is presumed to have been destroyed. These records are necessary to verify prices charged for custom orders.

Conclusions

We could not evaluate the internal control structure of industry sales as discussed in the scope limitation paragraph of this letter. Our study and evaluation disclosed the conditions discussed in findings 1 to 8 involving the internal control structure of the Minnesota Correctional Facility - Lino Lakes. We consider these conditions to be reportable conditions under standards established by the American Institute of Certified Public

Senator John E. Brandl, Chairman
Members of the Legislative Audit Commission
Mr. Orville B. Pung, Commissioner
Mr. Gothriel LaFleur, Superintendent
Page 3

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.

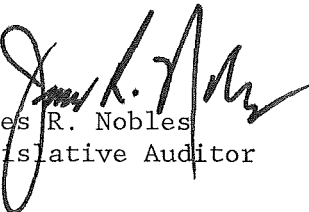
A material weakness is a reportable condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial activities being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We believe the reportable conditions described in findings 1 and 2 are material weaknesses.


We also noted other matters involving the internal control structure and its operation that we reported to the management of the Minnesota Correctional Facility - Lino Lakes at the exit conference held on April 18, 1990.

The results of our tests indicate that, with respect to the items tested, the Minnesota Correctional Facility - Lino Lakes 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 - Lino Lakes 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 - Lino Lakes. This restriction is not intended to limit the distribution of this report, which was released as a public document on September 21, 1990.

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


James R. Nobles
Legislative Auditor


John Asmussen, CPA
Deputy Legislative Auditor

END OF FIELDWORK: April 2, 1990

REPORT SIGNED ON: September 12, 1990

MINNESOTA CORRECTIONAL FACILITY - LINO LAKES

TABLE OF CONTENTS

	<u>Page</u>
I. INTRODUCTION	1
II. CURRENT FINDINGS AND RECOMMENDATIONS	
A. Industries	2
B. Facility Administration	6
AGENCY RESPONSE	9

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
Joan Haskin, CPA	Auditor-in-Charge
John Wicklund, CPA	Staff Auditor
Eric Jacobson	Staff Auditor
Kathy Hengel	Staff Intern

EXIT CONFERENCE

The findings and recommendations in this report were discussed with the following on April 18, 1990:

MCF-Lino Lakes:

Fred LeFleur	Superintendent
William McGrath	Assistant Superintendent of Administration
Bert Mohs	Assistant Superintendent of Operations
James Chappuis	Industry Director
Dennis Anderson	Finance Director
Kenneth Schoenrock	Accounting Supervisor
Mike Kriegler	Information Center Supervisor
Mary Ann Beckman	Industry Accounting Supervisor

Department of Corrections:

Peter Maurer	Internal Audit Director, Central Office
--------------	---

MINNESOTA CORRECTIONAL FACILITY - LINO LAKES

I. INTRODUCTION

The Minnesota Correctional Facility - Lino Lakes (MCF-LL) is one of ten correctional institutions operated by the Department of Corrections. Fred LeFleur became superintendent of the facility on September 1, 1989 and is responsible for the operations of the prison. Prior to his appointment, Fred Holbeck was the superintendent.

The MCF-LL medium/minimum security facility houses adult male inmates transferred in from the state's maximum security institutions. These inmates are generally serving the last remaining months of their sentence at MCF-LL before release. Prior to transfer the inmates are screened for stable work and discipline records. Programs at Lino Lakes are designed to control the inmate's behavior and assist him in returning to the community as a law-abiding citizen. In January 1988, MCF-LL sold 2 adjacent cottages and 10 acres of land to Anoka County for \$970,000. These dedicated funds were used by MCF-LL to expand buildings and services to house an additional 90 inmates, bringing the current population to 304. The current staff for the facility totals 165. Payroll expenses for fiscal year 1989 were \$5,850,670 or 51 percent of the total MCF-LL operating expenses of \$11,414,570 paid from state support, industries, and social welfare funds.

A variety of work, vocational, educational, and treatment programs are offered at Lino Lakes. Educational services include adult basic education, remedial classes, and college courses available to medium security inmates. Treatment programs include therapy for sex offenders and inmates with antisocial or character disorders. Industry work programs are a primary focus at MCF-LL, providing realistic work experience to aid inmates in successfully returning to the community. Shops include printing, assembly, metal fabrication, upholstery, and wood fabrication, with emphasis on job relationships and skill-building techniques. During fiscal year 1989, industry receipts and disbursements totaled \$2,923,314 and \$2,994,611, respectively.

MCF-LL is responsible for the care and custody of all money belonging to inmates of the facility. The transactions involving the inmates' money are processed through the social welfare accounts. \$782,660 was collected and \$770,272 was disbursed on behalf of the inmates during fiscal year 1989.

Note: Financial information obtained from the Statewide Accounting System, Managers Financial Report, and Estimated/Actual Receipts Report as of September 2, 1989.

MINNESOTA CORRECTIONAL FACILITY - LINO LAKES

II. CURRENT FINDINGS AND RECOMMENDATIONS

A. Industries

1. The mission and purpose for the industries program lack clarity and continuity.

Differing philosophies and expectations have led to disagreements about what accounting data to collect and use for the industries program. Minnesota Correctional Facility - Lino Lakes (MCF-LL) recently implemented a computerized accounting system, but does not use its full capabilities.

We have observed confusion concerning the purpose of Industries. The Department of Corrections-Central Office states that Industries at MCF-LL is to be a business program with the intent of generating a profit. Some of the staff at MCF-LL feel that Industries is a vocational program to prepare inmates for return to society. Accordingly, they believe the profit motivation is incompatible with these program objectives. We believe that the Central Office and MCF-LL need to reevaluate the mission statement. The proposed expansion of both inmate population and industry operations further reinforces the need.

Our prior two audit reports recommended using job costing techniques for industry accounting. Our recommendations were premised on the understanding that the industries program was supposed to be run as a business. At MCF-LL, standard costs are not detailed on a job-by-job basis to provide effective comparison to actual material and labor costs. Industries managers estimate costs for raw materials and labor hours using their judgment and experience rather than detailed accounting analysis. However, weak controls over inventory, as described in finding 2, have caused significant write-downs of inventory for financial statements. Job costing is necessary to provide management with information to monitor and control production effectively, if the program is to be run as a business.

Within the past two years, the industries accounting unit installed and began using a computer system that interfaces inventory, payroll, billing, and accounts receivable functions. While the system can produce job costing reports, industries management does not currently use it to do so. Industries management believe that job costing techniques are not appropriate for a correctional facility where inmates report time and materials used.

Basic issues such as defining the mission and developing an accounting system to support that mission are major concerns. The Department of

MINNESOTA CORRECTIONAL FACILITY - LINO LAKES

Corrections-Central Office and MCF-LL need to review the industries accounting system to determine its appropriateness for the needs of the facility. We believe a sense of unity among the Department of Corrections-Central Office, facility management, and industries management is necessary to achieve program and financial goals.

RECOMMENDATIONS

- DOC Central Office and MCF-LL should reevaluate the mission and goals of the industries program.
- DOC Central Office and MCF-LL should restructure the use of the accounting system to accomplish the goals of the program.

2. PRIOR FINDING NOT RESOLVED. Internal controls over industry raw material inventories are inadequate.

The industry program at MCF-LL has production shops for printing, assembly, upholstery, and wood fabrication. These shops maintain a large inventory of raw materials, valued at \$506,675 on December 31, 1989. Controls over inventory show the following weaknesses:

- Poor separation of duties exists over inventory. Shop supervisors, who have custody of the inventory, also take the physical inventory counts.
- Effective perpetual inventory records are not maintained to properly record and control materials purchased or issued for production. A computerized inventory system exists, but is not reliable. Based on a physical count taken on December 31, 1989, the inventory recorded on the system had to be decreased by \$71,933. Much of the shortage could be attributed to poor record-keeping.
- No follow-up is done on the discrepancies between the physical inventory count and inventory recorded on the system. Inventory amounts on the financial statements are taken from the physical counts. Records in the system are adjusted to the counts. No review of the \$71,933 adjustment was done.
- Receiving reports are not completed by the person actually receiving the items. The Industries purchasing unit receives a copy of the packing slip before items are delivered to the shops. Inmates compare items received to packing slips and report any exceptions to the Industries purchasing unit, where the packing slip is signed. Verification is done on an exception basis, but we believe positive reporting is necessary.

MINNESOTA CORRECTIONAL FACILITY - LINO LAKES

RECOMMENDATION

- MCF-LL should improve controls over industry inventory by:
 - separating the record keeping and custody functions for inventory;
 - developing a reliable inventory system documenting all purchases and issuances of raw materials;
 - comparing physical inventories to recorded balances and following up on any discrepancies; and
 - completing the receiving report at the time the goods are received, counted, and inspected.

3. Quality control in the MCI-LL print shop needs improvement.

During the last two years, the MCI-LL print shop issued a large number of credit memos to customers who complained about the quality and appearance of the finished product. MCI-LL print shop also issued credit memos when the final product failed to meet the customer's specifications. While the customers accepted most of these orders, the print shop allowed a 10 percent credit on the sale, either to be refunded or applied towards future orders. MCI-LL staff attribute the many credit memos to inmate laborers performing many of the steps in the final inspection process.

Print shop financial statements for the past 18 months show that, despite increasing revenues, the gross margin on sales is accumulating a larger deficit. As of February 28, 1990, the print shop had incurred a gross margin loss of \$28,830 for the fiscal year to date. During this period, 47 credit memos totaling \$41,845 were issued to customers. The print shop strives to be competitive with local firms and sets its prices in line with market conditions. Cost containment appears to be the reason for mounting losses. Issuance of an excessive number of credit memos reduces revenues and adds to raw materials and paper costs.

RECOMMENDATION

- MCI-LL print shop should monitor quality control and determine necessary action to improve operating profit.

MINNESOTA CORRECTIONAL FACILITY - LINO LAKES

4. Internal controls over industry inmate payroll need improvement.

Industry supervisors do not always sign the daily "manhour" reports for inmate workers. Supervisors record each inmate's hours onto a manhour report and send it to the payroll accounting section each day. The reports maintain a daily record of each inmate's hours by job identification and support wages paid to the inmates. MCF-LL policy states that wages paid to inmates must be supported by written time records approved by a civilian supervisor. During our initial testing, we found that 5 out of 20 manhour reports tested were not signed by the supervisors. Additional testing of six pay periods between July and December 1989 showed that supervisors in the upholstery, print, and furniture production shops consistently do not sign the reports. Not signing the reports increases the risk of inmates receiving pay for hours not worked and inaccurate reporting of labor costs for a particular job.

Time clocks used by the inmates to record time worked are frequently inaccurate. The industry time clocks are subject to abuse by the inmates and heavy use. During testing of time clock cards, we found that 9 out of 20 cards had incorrect data, such as wrong month and date. Good internal controls require that accurate documentation of hours worked be kept by each employee.

RECOMMENDATIONS

- Industry supervisors should sign the daily inmate time report.
- Industry management should ensure that time clocks are accurate.

5. PRIOR FINDING NOT RESOLVED. The Industries imprest checking account is not reconciled timely.

MCI-LL does not reconcile the bank statements for the Industries imprest checking account on a timely basis. In testing bank statement reconciliations, we found that 10 of the 31 months reviewed were not reconciled to the check register. In one instance, MCI-LL did not reconcile the account for three consecutive months. Monthly reconciliations provide for timely detection of errors on the bank statement or check register and allow for possible recourse with the bank.

The Industries contingent checking account obtains its authority and purpose from Minn. Stat. Section 241.13, Subd. 1, and is established at \$800. MCI-LL uses the checking account to pay vendors requiring immediate payment for such things as raw materials for a rush job.

RECOMMENDATION

- MCI-LL should reconcile the Industries bank statement to the check register balance monthly.

MINNESOTA CORRECTIONAL FACILITY - LINO LAKES

B. Facility Administration

6. Internal controls over food, clothing, and pharmacy inventories are inadequate.

The facility does not maintain inventory systems for food, clothing, and pharmacy supplies. During fiscal year 1989, purchases for these areas totaled \$655,920. Controls over these inventories show the following weaknesses:

- The pharmacy has inadequate inventory controls. A complete physical inventory is not taken. Only a physical inventory of controlled substances in the pharmacy is taken every two years. A quarterly physical inventory is suggested by the State Board of Pharmacy. A contract pharmacist has complete control over the pharmacy inventory. Although the inventory value is small, some controls still are necessary. Individuals other than those in custody of the inventory and inventory records need to participate in the inventory counts and verify the reasonableness of inventory usage.
- MCF-LL does not maintain inventory records for food purchases and issuances as had been done previously. The kitchen staff take a weekly food inventory to determine supplies to order, but discards copies after a few weeks. The same state employee is in charge of ordering and receiving food items. The risk of theft is increased, because the food storage area doors sometimes were unlocked.
- Currently, MCF-LL does not maintain any type of inventory records for staff or inmate clothing. A new staff member recently was given responsibility for the clothing inventory. Strong internal controls require the use of a perpetual inventory system to record all purchases and issuances of inventory. The balance in these accounts then can be compared to actual physical counts to detect loss or theft of inventory and can also be used to determine the need to purchase additional inventory.

RECOMMENDATIONS

- MCF-LL should establish some type of pharmacy inventory system and involve a state employee in the inventory process.
- MCF-LL should maintain inventory records for food and secure the storage areas when supervisors are not present.
- MCF-LL should establish a perpetual inventory system for clothing to record all purchases and issuances.

MINNESOTA CORRECTIONAL FACILITY - LINO LAKES

7. PRIOR FINDING NOT RESOLVED. Internal controls over receipts require improvement.

Minnesota Correctional Facility - Lino Lakes (MCF-LL) does not deposit receipts on a timely basis. Receipts are processed and deposit memorandums prepared on an average of three times a week. Of the 30 deposits tested, 29 were not made promptly. Minn. Stat. Section 16A.275 requires that receipts totaling \$250 or more be deposited daily. Not depositing promptly increases the risk of loss or theft and causes the loss of investment income for the state. Prior audit reports from our office and also from the Department of Corrections internal auditor in April 1987 and March 1990, reported delays in depositing. The bank is approximately two miles from the facility.

MCF-LL does not verify total receipts deposited. A manual listing of receipts is prepared in the mail room before transfer to the superintendent's secretary for preparation of the deposit. However, money received outside the mail room from inmate admissions, weekend inmate collections, and industry cash sales are not logged on any listing before being sent to the business office. Without recording all incoming receipts, MCF-LL cannot be assured that all receipts collected were deposited. A separate listing could be developed for these locations and used for comparison to the deposit. All incoming receipts must be logged to make it possible for a comparison of the total amount received with the total amount deposited for the facility.

RECOMMENDATIONS

- MCF-LL business office should improve internal controls over receipts by:
 - recording all incoming receipts on a receipt listing,
 - reconciling each deposit to the receipt listing, and
 - depositing all receipts totaling \$250 or more on a daily basis.

8. MCF-LL has improperly extended credit to employees for meal ticket sales.

The facility extends credit for meal ticket sales to its employees. As of March 30, 1990, a balance of \$335 charged by 40 employees for meal tickets remained unpaid. The majority of the charges occurred in fiscal years 1989 and 1990, but some unpaid amounts extended back to May 1986. Individual employees owe as much as \$94. No statutory authority or DOC policy allows MCF-LL to extend credit to employees.

MINNESOTA CORRECTIONAL FACILITY - LINO LAKES

In fiscal years 1988 and 1989, meal ticket sales were approximately \$12,000 each year. Employees purchase meal tickets to eat in the MCF-LL cafeteria. However, employees can complete and sign a form to charge their meals. Employees were required to pay the business office within two working days, but some employees did not comply with the requirement.

RECOMMENDATIONS

- MCF-LL should not extend credit for meal tickets.
- MCF-LL should collect outstanding meal amounts from employees.

August 31, 1990

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

Dear Mr. Nobles,

This letter contains our response to the draft audit report issued by your staff, dated July 16, 1990.

1. The mission and purpose for the industries program lack clarity and continuity.

OLA Recommendation:

DOC Central Office and MCF-LL should reevaluate the mission and goals of the industries program.

DOC Central Office and MCF-LL should restructure the use of the accounting system to accomplish the goals of the program.

The primary mission of the Department of Corrections is to incarcerate those persons committed to the department by the courts. The commissioner has no control over the number of persons committed to the department. For the past two years, the department has had a crisis situation due to the lack of available beds. Emergency measures have been taken to increase the capacity of all maximum, close and medium facilities. Management personnel in the department have had to deal with this problem on a daily basis. All department personnel, from the commissioner down to the newest correctional officer have tremendous concern over the impact of this population increase.

Included within the mission statement for the industry program is a reference to being cost effective and self sustaining. Certainly that is a commendable goal. One that we would not like to lose sight of, yet, in light of the population emergency, the importance of that goal must become secondary. Until the department can obtain the resources needed to properly program for this tremendous increase in the number of inmates, the movement of those inmates will depend upon the location of available beds and not the particular skills of the inmates.



As to the structuring of our industry accounting system, you must be aware that we receive strong direction from the department's central office concerning the policies and procedures to be used by accounting personnel. After an intensive period of research and evaluation, the department decided to use Open Systems Accounting Software (OSAS) to maintain accounting records and reports. We have had a difficult time in adapting this software package to our industry operation.

This a problem that we are expending great effort to correct as will be reflected in our response to your findings listed below. Members of the central office finance staff are working closely with us. Progress is being made and I am confident that we will have this sytem running properly in the very near future.

2. PRIOR FINDINGS NOT RESOLVED. Inventory controls over industry raw material inventories are inadequate.

OLA Recommendation:

MCF-LL should improve controls over industry inventory by:

- Separating the record keeping and custody function for inventory;

- Developing a reliable inventory system documenting all purchases and issuance of raw materials;

- Comparing physical inventories to recorded balances and following up on any discrepancies;

- Completing the receiving report at the time the goods are received, counted and inspected.

Developing an accurate inventory system for industry raw materials has been a most frustrating experience over the past two years. At the completion of the last audit, we were confident that the upcoming application of an automated inventory software program would solve our problems and bring us into compliance with audit recommendations. The problem proved to be substantially greater than we anticipated. Continual discrepancies between the computer records and manual counts, particularly in the print shop, seemed to defy explanation.

Finally, a concentrated effort by our SPRING committee (the group coordinating the application of Open Systems Accounting Software) has resulted in, what we hope is a solution to that problem. The manual inventory conducted at the end of the last quarter (FY'90) came within 2% of the computer generated total, well within our goal of 95% accuracy.

In reference to the recommendation, if in fact, the above accuracy figure can be maintained, the first and second items will be partially satisfied. All inventory records of delivery and issuance of items are now reviewed and signed off by the shop supervisor. Shop inventories are the responsibility of the shop supervisor, while the computer file is maintained by Mary Ann Beckman, Accounting Supervisor.

Item three has been implemented in that Dan Kaiser, Industry Buyer makes random cycle counts on a monthly basis and logs all discrepancies between the physical count and the automated record. Each is investigated and reported to Don Shackle, the factory manager or Ms. Beckman for correction.

Item four, completing the receiving report at the time that the goods are received, counted and inspected is a major problem. The lack of a central warehouse, coupled with the inaccessibility of delivery points due to the security fence result in delivery drops at points of convenience. Don Shackle and Dan Kaiser will seek to resolve this problem by 1/1/92. The delay is necessary in order to incorporate revised procedures resulting from our expansion, which will occur next summer.

3. Finding: Quality control in the MCI print shop needs improvement.

OLA Recommendation: MCI-LL print shop should monitor quality control and determine necessary action to improve operating profit.

The print shop staff have developed a new quality control procedure, which essentially amounts to a careful staff inspection of all completed print jobs. Credit memos which had been averaging \$580 per month were reduced to \$33 in June.

Further analysis is being conducted to identify credit memos that result from production errors and those from billing errors.

4. Internal controls over industry inmate payroll need improvement.

OLA Recommendation: Industry supervisors should sign the daily inmate time report.

Industry management should ensure that time clocks are accurate.

A procedure has been adopted whereby the input clerk receiving the daily manhour reports will immediately return all unsigned reports to Don Shackle, Factory Manager, who in turn will obtain the proper signatures and take what action is necessary to prevent future occurrences.

It is our intention to develop a procedure whereby the security staff will check and correct all time clocks on a daily basis when they shake down the industry area at the close of the work day.

Responsibility - James Chappuis, Industry Director. To be implemented by 10/1/90.

5. PRIOR FINDINGS NOT RESOLVED. The industries imprest checking account is not reconciled timely.

OLA Recommendation: MCI-LL should reconcile the industries bank statement to the check register balance monthly.

This recommendation will be implemented immediately.

Responsibility - Dennis Anderson, Finance Director

6. Internal controls over food, clothing and pharmacy inventories are inadequate.

OLA Recommendations:

MCF-LL should establish some type of pharmacy inventory system and involve a state employee in the inventory process.

MCF-LL should maintain inventory records for food and secure the storage areas when supervisors are not present.

MCF-LL should establish a perpetual inventory system for clothing to record all purchases and issuances.

The first recommendation presents difficult problems in that our pharmacist is a contract employee who only comes to the institution on demand and then at his own convenience. We have no state employee who could conduct a meaningful inventory, because of the nature of drug packaging. We propose to resolve this problem by including in the next contract (Univ. of Minn.), a stipulation that our pharmacy be inventoried on a quarterly basis by a qualified individual who is independent of the service pharmacist.

Responsibility - William McGrath, Asst. Superintendent
To be implemented by 7/1/91.

Steps have already been taken to maintain proper records of purchase and withdrawal for kitchen supplies and provisions. Appropriate records are being retained for future auditing purposes. This system will be improved by the eventual automation of food service records which is anticipated within the next 18 months.

Responsibility - Richard Okoneski, Chief Cook

James R Nobles, Legislative Auditor
August 31, 1990
Page 5

We will implement proper inventory records for staff and inmate clothing as soon as possible. In the past, this area was under the direction of a long term, very competent employee. That person has retired and the duties are now assigned to a position for which there may be high turnover. It is essential that proper records be maintained in order to control costs and prevent shortages. We will adopt an identical record system that is now used in our warehouse.

Responsibility - William McGrath, Asst. Superintendent
To be implemented by 1/1/91.

7. PRIOR FINDING NOT RESOLVED. Internal controls over receipts require improvement.

OLA Recommendations:

MCF-LL business office should improve internal controls over receipts by :

- recording all incoming receipts on a receipt listing;
- reconcile each deposit to the receipt list;
- deposit all receipts totaling \$250 or more on a daily basis.

Additional receipt log sheets will be set up to record money which comes to the institution at points other than the mail room. Such logs will be completed by the staff receiving the money at the time of receipt and will be used in verifying the deposits. The actual log-to-deposit verification is now being performed after every fourth deposit and will be performed weekly once the routine is established.

Responsibility: Dennis Anderson, Finance Director
To be implemented immediately.

The problem of deposits is an old one with which we have struggled for many years. We have scheduled deposits on a daily basis, however, it is subject to staff availability. Deposits are made up by the superintendent's secretary who often has priority work that prevents immediate attention to this problem. Security staff are used to make the bank run, however, transportation demands such as inmate transfers and hospital runs, have placed a heavy burden on this staff and they often are not available. It is our intention to make every possible effort to make a daily deposit. We have also requested additional staff for transportation and the business office, which if obtained, will allow us to bring this activity into compliance.

Responsibility: William McGrath, Asst. Supt.
To be implemented as soon as possible, or no later than 10/1/91.

James R. Nobles, Legislative Auditor
August 31, 1990
Page 6

8. MCF-LL has improperly extended credit to employees for meal ticket sales.

OLA Recommendation:

MCF-LL should not extend credit for meal tickets.

MCF-LL should collect outstanding meal amounts from employees.

This recommendation has been implemented and all outstanding balances have been collected from employees.

Again, I thank you for this opportunity to respond to the audit findings of your staff. If there are further questions or concerns, please let me know.

Sincerely,


Gothriel J. LaFleur, Superintendent

GJL:mg

c.c. Senator John E. Brandl, Chairman, LAC
Orville Pung, Commissioner, DOC
Howard Costello, Deputy Commissioner, DOC