MOOSE LAKE REGIONAL TREATMENT CENTER
FINANCIAL AUDIT
FOR THE THREE YEARS ENDED JUNE 30, 1990

JUNE 1991

Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

91-36

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

SUMMARY
State of Minnesota
Office of the Legislative Auditor
Centennial Office Building • St. Paul, MN 55155
612/296-4708

MOOSE LAKE REGIONAL TREATMENT CENTER

FINANCIAL AUDIT
FOR THE THREE YEARS ENDED JUNE 30, 1990

Public Release Date: June 28, 1991 No. 91-36

OBJECTIVES:

- EVALUATE INTERNAL CONTROL STRUCTURE: Payroll; cost of residents' care; chemical dependency programs; social welfare accounts; contracts; and supplies and materials.
- TEST COMPLIANCE WITH CERTAIN FINANCE-RELATED LEGAL PROVISIONS.

CONCLUSIONS:

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

- Poor controls have resulted in overdrawn resident accounts and unauthorized write-offs.
- Withdrawals for residents from the social welfare accounts are not properly supported.
- Documentation of sales in the residents' canteen needs improvement.

We found that the center 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

Representative Ann Rest, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Ms. Natalie Steffen, Commissioner
Department of Human Services

Frank Milczark, Chief Executive Officer
Moose Lake Regional Treatment Center

Audit Scope

We have conducted a financial related audit of the Moose Lake Regional Treatment Center as of and for the three years ended June 30, 1990. Our audit was limited to only that portion of the State of Minnesota financial statements attributable to the transactions of the Moose Lake Regional Treatment Center, as discussed in the Introduction. We have also made a study and evaluation of the internal control structure of Moose Lake Regional Treatment Center in effect as of June 30, 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 Moose Lake Regional Treatment Center are free of material misstatements.

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

Management Responsibilities

The management of Moose Lake 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 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 the 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:

- Payroll;
- Cost of residents' care;
- Chemical dependency programs;
- Social welfare accounts;
- Supplies and materials; and
- Contracts.

For the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and we assessed control risk.

Conclusions

Our study and evaluation disclosed the conditions discussed in findings 1 to 3 involving the internal control structure of Moose Lake 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 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 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 do not believe that the reportable conditions described above are material weaknesses.

We also noted other matters involving the internal control structure and its operation that we reported to management of the Moose Lake Regional Treatment Center at the exit conference held on April 10, 1991.

The results of our tests indicate that, with respect to items tested, Moose Lake 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 Moose Lake Regional Treatment Center 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 Moose Lake Regional Treatment Center. This restriction is not intended to limit the distribution of this report, which was released as a public document on June 28, 1991.

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

James R. Nobles
Legislative Auditor

John Asmussen, CPA
Deputy Legislative Auditor

END OF FIELDWORK: April 10, 1991

REPORT SIGNED ON: June 19, 1991

MOOSE LAKE REGIONAL TREATMENT CENTER

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AUDIT PARTICIPATION

The following staff from the Office of the Legislative Auditor prepared this report:

John Asmussen, CPA	Deputy Legislative Auditor
Renee Redmer, LPA	Audit Manager
Ken Vandermeer, CPA	Auditor-in-Charge
Ellen Merlin, CPA	Senior Auditor
Ron Mavetz, CPA	Senior Auditor

EXIT CONFERENCE

The findings and recommendations in this report were discussed with Frank Milczark, the Chief Executive Officer on April 10, 1991.

I. INTRODUCTION

Moose Lake Regional Treatment Center provides services for developmentally disabled, mentally retarded and chemically dependent persons. These services are residential, therapeutic, and habilitating in nature. The facility is under the current supervision of Frank Milczark, Chief Executive Officer. The average daily population for fiscal years 1988-1990 is as follows:

Fiscal Year	Average Daily Population
1988	353
1989	329
1990	311

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

The table below summarizes the Moose Lake Regional Treatment Center General Fund expenditures for fiscal years 1988-1990:

	1988	1989	1990
Payroll	$14,805,578	$15,371,188	$16,981,833
Social Welfare	283,910	323,248	316,638
Supplies/Materials	1,270,202	1,247,243	1,364,984
Contracts	311,842	556,057	491,303
Other expenditures	885,157	1,139,035	1,394,961
Total Expenditures	$17,556,689	$18,636,771	$20,549,719

Source: Statewide Accounting System, *Manager's Financial Reports* as of the closing date for fiscal years 1988, 1989, and 1990.

Receipts for the cost of care related to the center's residents are collected directly by the Department of Human Services Reimbursement Division. The center is still responsible, though, for determining the billing amounts that each resident or co-payor must make for their cost of care. The department collected $12,297,312, $13,055,045, and $16,223,412 for the years ended June 30, 1988, 1989, and 1990, respectively, as reported by the Reimbursement Division. The center collected receipts for the chemical dependency program of $1,027,928, $2,676,711 and $2,786,909 for the years ended June 30, 1988, 1989, and 1990, respectively.

II. CURRENT FINDINGS AND RECOMMENDATIONS

1. Poor controls have resulted in overdrawn resident accounts and unauthorized write-offs.

The untimely submission of charge slips by center staff permitted residents to withdraw funds that were previously obligated. This resulted in overdrawn accounts for 25 of about 300 resident accounts. These 25 social welfare resident accounts had negative balances totaling $1,033 as of March 31, 1991. The total resident account balances controlled by the center in March of 1991 was approximately $256,000 and the largest individual negative balance was $240. Currently, center staff purchase merchandise for residents from vendors outside the center. Center staff confirm the residents' account balances before making the purchases. However, the resident can withdraw funds between the time the center confirms the account balance and the time the center processes the merchandise purchase. The center cannot process the purchase until the staff return a charge slip. The centers' policies require staff to submit charge slips within one day, but we noted delays of 3 to 10 days. As a result, insufficient funds exist when staff process the merchandise payment and a negative account balance results. A "hold order" command exists in the centers' social welfare accounting system which would enable the center to prevent the occurrence of negative resident account balances. Staff do not currently use the "hold order" command.

The center incorrectly wrote-off twenty five resident accounts with negative balances totaling $627.71 in May 1989. The negative balances were written off using money from unclaimed resident funds held in a suspense account. State statutes require that the center hold unclaimed funds for a five year period. If the funds remain unclaimed after five years, the center can use the funds for the benefit of all residents. Eliminating negative account balances with unclaimed funds is not an allowable use.

When resident's run a negative account balance, they are in effect borrowing money from the other residents. This activity jeopardizes the other resident's assets since the institution becomes liable for outstanding overdrafts when the resident leaves the facility. This activity also reduces the interest earnings on other resident's deposits.

RECOMMENDATION

- **The center should develop controls to prevent negative balances from occurring in residents accounts.**

2. Withdrawals for residents from the social welfare fund are not properly supported.

Resident withdrawals made by center staff did not have adequate supporting documentation to show the propriety of the transactions. Seven of the fifteen withdrawals tested did not contain receipts or other documentation to substantiate a disbursement for the benefit of the resident. For example, center staff withdrew $50 from a resident's account to purchase clothing for the resident. A receipt did not support the clothing purchase nor was there evidence that staff returned any funds. The center's policies require documentation to substantiate the propriety of disbursements made from residents' funds. This policy applies to individual and group purchases. The documentation would allow the center to defend the withdrawals if questioned by the residents, their families, or legal representatives. The documentation would also serve as an effective internal administrative control.

In addition, we were unable to audit certain fiscal year 1988 social welfare transactions of the center because documents supporting resident withdrawals for a three month period were missing. These records are necessary to verify that transactions are appropriate.

Documentation of withdrawals from the resident change funds maintained on the living units was also incomplete. Residents have change funds established in the cottages to purchase pop, candy, and other items. Cottage staff maintain separate envelops for each resident. Change funds and receipts supporting the residents' withdrawals are kept in the envelopes. A ledger of withdrawal and deposit dates support the fund balance in the envelope. The ledger includes the withdrawal dates, withdrawal amounts, and staff initials supporting the withdrawals. One of the three cottages discarded both receipts supporting resident deposits and withdrawals. The ledger sheets were also destroyed by this cottage. The center's policies require retention of financial records for at least four years. When requesting change funds, none of the three cottages submitted ledger sheets or other documentation of resident withdrawals to the business office to support funds requested. Business office staff do not request supporting documentation from cottage staff to ensure the propriety of resident disbursements.

RECOMMENDATIONS

- **Staff should maintain supporting documentation for resident deposits and withdrawals.**

- **Business office staff should request appropriate documentation from cottage staff to support resident withdrawals when change funds are requested.**

3. <u>Documentation of sales in the residents canteen needs improvement</u>.

The center did not properly document voided cash transactions in the residents' canteen. The center collects cash receipts from the sale of merchandise. Cashiers are responsible for selling merchandise, collecting receipts, and entering the transactions into the cash register. During the process, the cashier may void an incorrectly entered transaction so the daily cash register summary agrees with the receipts collected. The cashier does not prepare documentation supporting the reason for the adjustments. An individual, independent of the collection process, reconciles the receipts to the cash register summary at the end of each day. However, this person does not monitor usage or propriety of voided transactions.

Weak controls exist when voided transactions do not have the proper supporting documentation. The support should contain an explanation of the void, amount, time, and an authorized signature. A review of the voids performed by an individual independent from the receipt function is necessary for strong internal control. Voided transactions are sensitive transactions that may conceal cash shortages or other irregularities. The center should develop procedures which require that voided transactions be documented and monitored.

RECOMMENDATIONS

- **All voided transactions should be properly supported.**
- **An independent review of voids should be performed to ensure the propriety of these adjustments.**

Moose Lake Regional Treatment Center

1000 Lakeshore Drive
Moose Lake, Minnesota 55767
(218) 485-4411

Frank R. Milczark
Chief Executive Officer

Gregory J. Peterson, M.D.
Medical Director

June 13, 1991

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

Dear Mr. Noble:

Attached is our response to the recommendations made to improve documentation and internal controls. We believe the actions we have taken will correct the noted deficiencies.

The review done by your staff and subsequent recommendations were very thorough, professional and most helpful. We are committed to fully complying with the laws and policies established by the State.

Thank you for your assistance in meeting our obligation.

Sincerely,

Frank R. Milczark
CEO

bl

cc: Robert Baird
Deputy Assistant Commissioner

Moose Lake Regional Treatment Center
Response to Legislative Audit Recommendations
June 13, 1991

1. Current Findings: Poor controls have resulted in overdrawn resident accounts and unauthorized write-offs.

   Recommendations: The center should develop controls to prevent negative balances from occurring in residents accounts.

   Corrective Action: Moose Lake Regional Treatment Center Policy 51.14 does not allow any purchase to be made unless thereare adequate funds. At the time the authorization for a purchase is given this policy further requires that a hold be placed for the amount of the authorized purchase and Business Office staff assigned to handle patient accounts will rigidly enforce this policy. The Accounting Supervisor, Sr. or Accounting Technician will monitor accounts weekly to assure compliance. This procedure will eliminate the use of unclaimed funds to cover negative balances.

2. Current Findings: Withdrawals for residents from the social welfare fund are not properly supported.

   Recommendations: Staff should maintain supporting documentation for resident deposits and withdrawals.

   Business Office staff should request appropriate documentation from cottage staff to support resident withdrawals when change funds are requested.

   Corrective Action: A directive has been sent to appropriate staff on all patient units reiterating hospital policy on retention of records. Business Office personnel assigned to patient accounts will: 1) not allow any withdrawals without appropriate, authorized supporting documents including receipts for all purchases; 2) will establish a standard procedure for all patient units for obtaining and processing receipts and other appropriate documents and 3) will monitor the established policies and procedures to assure compliance. Existing procedures have been re-written more definitely with regard to the above.

3. Current Findings: Documentation of sales in the residents canteen needs improvement.

   Recommendations: All voided transactins should be properly supported.

   An independent review of voids should be performed to ensure the propriety of these adjustments.

   Corrective Action: All voided transactions will be noted as to reason for the void, dated, and initialed on the audit tape.

   A daily review will be made of the audit tape by the person who reconciles the receipts to the cash register summary. Any discrepancies will be brought to the Accounting Technician or Accounting Supervisor, Sr.

Staff person responsbible for assuring full implementation of the above is:
John Karkela
Accounting Supervisor, Sr.

Effective Date of Corrections: May 7, 1991