

MINNESOTA CORRECTIONAL FACILITY -  
RED WING  
FINANCIAL AUDIT  
FOR THE THREE YEARS ENDED JUNE 30, 1990

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JULY 1991

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Financial Audit Division  
Office of the Legislative Auditor  
State of Minnesota

91-38



# SUMMARY

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

## MINNESOTA CORRECTIONAL FACILITY - RED WING

### FINANCIAL AUDIT FOR THE THREE YEARS ENDED JUNE 30, 1990

Public Release Date: July 3, 1991

No. 91-38

#### OBJECTIVES:

- EVALUATE INTERNAL CONTROL STRUCTURE: payroll, social welfare transactions, consumable inventory, federal revenue, and diagnostic and detention revenues.
- TEST COMPLIANCE WITH CERTAIN FINANCE-RELATED LEGAL PROVISIONS.

#### CONCLUSIONS:

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

- Social welfare transactions.
- Consumable inventories.

Both were findings included in the prior audit report.

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

- Annual reports were not always filed with the Department of Education for some federal programs.

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

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Representative Ann Rest, Chair  
Legislative Audit Commission

Members of the Legislative Audit Commission

Orville B. Pung, Commissioner  
Department of Corrections

Gerald O'Rourke, Superintendent  
Minnesota Correctional Facility - Red Wing

**Audit Scope**

We have conducted a financial related audit of the Minnesota Correctional Facility - Red Wing for the three years ended June 30, 1990. Our audit included only that portion of the State of Minnesota financial activities attributable to the transactions of the Minnesota Correctional Facility - Red Wing, as discussed in the Introduction. We have also made a study and evaluation of the internal control structure of the Minnesota Correctional Facility - Red Wing in effect during March 1991.

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 - Red Wing 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 - Red Wing'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 - Red Wing 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.

Due to 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:

- payroll,
- social welfare transactions,
- consumable inventory,
- federal revenue, and
- diagnostic and detention revenues.

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 and 2 involving the internal control structure of the Minnesota Correctional Facility - Red Wing. 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 the reportable condition described in finding 1 is a material weakness.

Representative Ann Rest, Chair  
Members of the Legislative Audit Commission  
Orville B. Pung, Commissioner  
Gerald O'Rourke, Superintendent  
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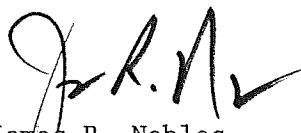
We also noted other matters involving the internal control structure and its operation that we reported to the management of the Minnesota Correctional Facility - Red Wing at the exit conference held on May 7, 1991.


The results of our tests of compliance disclosed the instances of noncompliance noted in finding 3. Material instances of noncompliance are failures to follow requirements, or violations of prohibitions, contained in statutes, regulations, contracts, or grants that cause us to conclude that the aggregation of the misstatements resulting from those failures or violations is material to the financial activities being audited.

Except as described above, the results of our tests indicated that, with respect to the items tested, the Minnesota Correctional Facility - Red Wing complied, in all material respects, with the legal 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 - Red Wing had not complied, in all material respects, with those legal provisions.

This report is intended for the information of the Legislative Audit Commission and management of the Minnesota Correctional Facility - Red Wing. This restriction is not intended to limit the distribution of this report, which was released as a public document on July 3, 1991.

We thank the Minnesota Correctional Facility - Red Wing staff for their cooperation during this audit.

  
James R. Nobles  
Legislative Auditor

  
John Asmussen, CPA  
Deputy Legislative Auditor

END OF FIELDWORK: April 15, 1991

REPORT SIGNED ON: June 27, 1991





# MINNESOTA CORRECTIONAL FACILITY - RED WING

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## AUDIT PARTICIPATION

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

John Asmussen, CPA	Deputy Legislative Auditor
Warren Bartz, CPA	Audit Manager
Cecile Ferkul, CPA	Audit Supervisor
Janet Knox	Audit Staff

## EXIT CONFERENCE

The findings and recommendations in this report were discussed with the following staff of the Minnesota Correctional Facility - Red Wing and the Department of Corrections on May 7, 1991:

Gerald O'Rourke	Superintendent
John Odden	Director of Education
Richard Ottoson	Business Manager
Char Svihel	Stores Clerk
Maureen Kees	Accounting Officer
Betty Webster	Social Welfare Account Clerk
Mary Fried	Senior Account Clerk
Nita O'Connell	Volunteer Services Director
Pete Maurer	Director of Internal Audit, Department of Corrections



# MINNESOTA CORRECTIONAL FACILITY - RED WING

## I. INTRODUCTION

The Minnesota Correctional Facility - Red Wing (MCF-Red Wing), formerly known as the State Training School, is a minimum security facility which houses both juvenile and adult males. The facility provides custody, evaluation and treatment services for male juvenile offenders committed to the Commissioner of Corrections from the southeastern region of Minnesota, including the Twin Cities metropolitan area. In addition, diagnostic and detention services are provided to the county juvenile court system. The adult population consists of males who have been transferred from maximum security facilities and are nearing their release dates. Programs for the juvenile population are academic and vocational in nature, including remedial mathematics and reading courses, and various trades. Work programs for the adults include vocational training and land management.

The facility was constructed in 1891 and consists of an open campus which contains one and two story cottages that house between 25 and 30 residents each. The average population of the facility is 75 juveniles and 80 adults. Program capacity is 165 and the staff size is 128. The facility is under the supervision of Superintendent Gerald O'Rourke.

The summary below shows budgetary basis expenditures and revenue from July 1, 1987 through June 30, 1990 for the major internal control cycles:

	Year Ended June 30		
	1990	1989	1988
Expenditures:			
Payroll	\$5,425,630	\$5,029,081	\$4,696,441
Social Welfare	215,480	216,028	169,147
Other	<u>1,289,855</u>	<u>1,306,570</u>	<u>1,066,162</u>
Total Expenditures	<u>\$6,930,965</u>	<u>\$6,551,679</u>	<u>\$5,931,750</u>
Revenue:			
Diagnostic and Detention	\$209,047	\$241,607	\$207,603
Federal	203,188	195,577	211,784
Social Welfare	213,003	229,491	181,856
Other	<u>176,946</u>	<u>161,429</u>	<u>115,057</u>
Total Revenue	<u>\$802,184</u>	<u>\$828,104</u>	<u>\$716,300</u>

Source: Statewide Accounting System Manager's Financial Reports, as of September 3, 1988; September 2, 1989; and September 1, 1990.  
Statewide Accounting System Estimated/Actual Receipts Reports, as of September 3, 1988; September 2, 1989; and August 31, 1990.

## MINNESOTA CORRECTIONAL FACILITY - RED WING

### II. CURRENT FINDINGS AND RECOMMENDATIONS

#### 1. PRIOR FINDING NOT RESOLVED. Internal controls over social welfare transactions need improvement.

MCF-Red Wing has not adequately segregated incompatible duties related to social welfare activities. Business office staff also have not performed proper reconciliations of the subsidiary records to the control totals. These weaknesses in the internal control system subject the social welfare accounts to undue risk. Concentration of incompatible duties with one person increases the risk that staff cannot prevent or detect errors and irregularities.

Social welfare accounts included the inmates' money which is on deposit with the facility and recreation funds generated for the benefit of all residents. At March 31, 1991, inmate accounts totaled \$15,897 and the recreation account totaled \$113,681. MCF-Red Wing, by statute, is responsible for the care and custody of this money and must provide for an accurate accounting of transactions.

Until February 1991, the social welfare clerk had complete control of the checking account. She wrote the checks, posted the transactions to the subsidiary records, balanced the checking account, and applied the signatures through the check writing machine. No one independently reviewed the checks or supporting documentation. In February 1991, another business office clerk assumed the responsibility of reconciling the checking account. Further segregation of incompatible duties would be obtained if the business manager would review check documentation and provide the authorized signatures for the checks.

We also found that business office staff did not properly reconcile the resident account balances to the social welfare control account. He used various reconciling items that were not pertinent to the reconciliation, and used the recreation subaccount as a balancing amount. The purpose of the reconciliation is to determine whether errors or irregularities, such as inappropriate use of resident funds or inaccurate postings to the subsidiary records, have occurred. MCF-Red Wing's reconciliations could not detect errors or irregularities.

#### RECOMMENDATIONS

- The business manager should review check documentation and provide the authorized signatures.
- Business office staff other than the social welfare clerk should regularly perform proper reconciliations of the social welfare subsidiary records to the social welfare control totals and statewide accounting system totals.

## MINNESOTA CORRECTIONAL FACILITY - RED WING

### 2. PRIOR FINDING NOT RESOLVED. Internal controls over consumable inventories need improvement.

Business office staff do not review adjustments made to perpetual inventory records. The custodian of each inventory area conducts physical counts of inventory items. The custodians adjust the perpetual inventory records based on the inventory counts. The custodians do not report or explain adjustments to the business office. As a result, consumable inventory is susceptible to waste, unauthorized use or theft.

MCF-Red Wing maintains several consumable inventory locations, including those for maintenance parts and supplies, cleaning and office supplies, as well as food and clothing. The business office estimates the total value of these inventories at March 1991 to be \$139,200. In each of the inventory centers, the custodian is responsible for recording inventory received, issued, and the subsequent posting to perpetual inventory records.

Effective inventory controls include having a complete physical inventory at each location on an annual basis, or regular periodic spotchecks. Someone independent of the inventory areas should conduct the inventory counts. The inventory counter must document the results of the count and report material discrepancies to the business office for investigation. To further strengthen controls over consumable inventories, the business office should inform facility staff of their responsibility for maintaining accurate inventory records.

### RECOMMENDATIONS

- MCF-Red Wing should complete annual physical inventory counts or periodic spotchecks on a regular basis. The staff conducting the counts should be independent of the inventory areas. Business office staff should investigate any material discrepancies.
- MCF-Red Wing staff responsible for maintaining inventory records should receive additional training and direction to become familiar with current institution policies for inventory recordkeeping.

### 3. Annual reports are not always filed with the Department of Education for some federal programs.

Business office staff did not file the 1990 completion report for the federal Elementary and Secondary Education Act (ESEA) Chapter 1, Title 1 program (CFDA #84.010) as of March 1991. This report was due to the Department of Education by August 31, 1990. The program provides funding for remedial mathematics and English instruction for the juvenile residents.

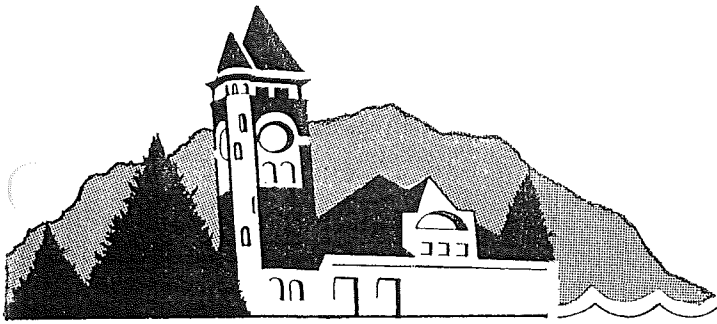
## MINNESOTA CORRECTIONAL FACILITY - RED WING

Business office staff also did not file the annual financial reports for the National School Lunch Program (CFDA #10.555), known as the Child Nutrition Program, for fiscal years 1988 and 1989 with the Department of Education as of March 1991. The Department of Education needs this report each year to fulfill their responsibilities as an agent for federal funds. The report provides data about how MCF-Red Wing used the funds received and verifies for the Department of Education that MCF-Red Wing is not maintaining a balance on hand which exceeds three months of operating funds. The report is due to the Department of Education by August 20 each year. The grants reimburse the facility for breakfast and lunch meals provided to juveniles.

Unless reports are submitted within the established timeframes, federal funding to the MCF-Red Wing could be withheld or suspended. The Department of Education would have suspended the fiscal year 1991 Child Nutrition grant if MCF-Red Wing had not filed the fiscal year 1990 report.

### RECOMMENDATION

- Business office staff should submit the required reports for federal programs to the Department of Education within the established timeframes.



■ 1889 ■ MCF • RW ■ 1989 ■

June 14, 1991

Mr. James R. Nobles, Legislative Auditor  
Office of the Legislative Auditor  
Centennial Office Building  
658 Cedar Street  
St. Paul, Minnesota 55155

Dear Mr. Nobles:

Our response to your audit report for MCF-Red Wing covering the three years ended June 30, 1990, is attached. Each audit finding is listed and addressed separately along with a notation of the individual responsible for implementation.

We appreciate your assistance in improving accounting procedures and controls at our facility. If you have any questions concerning our response, please feel free to call.

Sincerely,

Gerald T. O'Rourke  
Superintendent

GTO/mjf

Attachment

*Celebrate*

MINNESOTA  
1990

DEPARTMENT OF CORRECTIONS  
MCF-RED WING

AUDIT RESPONSE

INTERNAL CONTROLS OVER SOCIAL WELFARE TRANSACTIONS NEED IMPROVEMENT

RECOMMENDATION:

1. The business manager should review check documentation and provide the authorized signatures.

Business Office staff other than the social welfare clerk should regularly perform proper reconciliations of the social welfare subsidiary records to the social welfare control totals and Statewide Accounting System totals.

RESPONSE: The accounting officer will review check documentation and supervise the authorization of signatures. The key to the check writing machine has always been locked in the safe each night.

Person Responsible: Maureen Kees

The business manager will regularly perform proper reconciliations of the social welfare control totals and Statewide Accounting System totals. Our account clerk senior has been reconciling the social welfare contingent fund checking account since January 1991.

Person Responsible: Richard Ottoson

INTERNAL CONTROLS OVER CONSUMABLE INVENTORIES NEED IMPROVEMENT

RECOMMENDATION:

2. MCF-Red Wing should complete annual physical inventory counts or periodic spot checks on a regular basis. The staff conducting the counts should be independent of the inventory areas. Business Office staff should investigate any material discrepancies.

MCF-Red Wing staff responsible for maintaining inventory records should receive additional training and direction to become familiar with current institution policies for inventory recordkeeping.

RESPONSE: MCF-Red Wing will complete annual physical inventory counts or periodic spot checks on a regular basis. The staff conducting the counts will be independent of the inventory areas. Business Office staff will investigate any material discrepancies. This recommendation has already been implemented.

Person Responsible: Maureen Kees

MCF-Red Wing staff responsible for maintaining inventory records will receive additional training and direction to become familiar with current institution policies for inventory recordkeeping. We are in the process of reviewing and setting up a new consumable inventory package. The consumable inventory system is expected to be on our computer and ready for implementation by March 1, 1992. Personnel from the Materials Management Division as well as personnel from our Central Office in St. Paul will be called upon if needed to assist us in staff training on the new consumable inventory system.

Person Responsible: Maureen Kees



ANNUAL REPORTS ARE NOT ALWAYS FILED WITH THE DEPARTMENT OF EDUCATION FOR SOME  
FEDERAL PROGRAMS

RECOMMENDATION:

3. Business Office staff should submit the required reports for federal programs to the Department of Education within the established timeframes.

RESPONSE: The business manager will submit the required annual Child Nutrition Programs report and the Chapter I annual report within the established timeframes to the Department of Education.

These reports were submitted for F.Y. 90 during September 1990 and March 1991, respectively.  
Person Responsible: Richard Ottoson