

**DEPARTMENT OF CORRECTIONS
CENTRAL OFFICE
FINANCIAL AUDIT
FOR THE THREE YEARS ENDED JUNE 30, 1991**

JUNE 1992

Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

92-38

DEPARTMENT OF CORRECTIONS
FINANCIAL AUDIT
FOR THE THREE YEARS ENDED JUNE 30, 1991

Public Release Date: June 25, 1992

No. 92-38

OBJECTIVES:

- EVALUATE INTERNAL CONTROL STRUCTURE: Community Corrections Act grants, Community Services grants, County Probation Reimbursement grants, payroll, and contracts for professional/technical services.
- TEST COMPLIANCE WITH CERTAIN FINANCE-RELATED LEGAL PROVISIONS.

CONCLUSIONS:

We found one area where the internal control structure needed improvement:

- The department needs to reduce excessive cash balances of participating counties in the Community Corrections Program.

We found two departures from finance-related legal provisions:

- The department had begun work and paid for some professional and technical services without a written contract.
- Managerial staff at correctional facilities were compensated inappropriately for hours not worked.

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



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

CENTENNIAL 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

Mr. Orville B. Pung, Commissioner
Department of Corrections

Audit Scope

We have conducted a financial related audit of the Department of Corrections - Central Office as of and for the three fiscal years ended June 30, 1991. Our audit was limited to only that portion of the State of Minnesota financial activities attributable to the transactions of the Department of Corrections - Central Office, as discussed in the Introduction. We have also made a study and evaluation of the internal control structure of the Department of Corrections - Central Office in effect at December 31, 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 Department of Corrections - Central Office are free of material misstatements.

As part of our study and evaluation of the internal control structure, we performed tests of the Department of Corrections - Central Office 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 Department of Corrections - Central Office 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:

- Community Corrections Act grants,
- Community Services grants,
- County Probation Reimbursement grants,
- payroll, and
- contracts for professional/technical services.

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 finding 1 involving the internal control structure of the Department of Corrections - Central Office. We consider these conditions to be reportable conditions under the 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 above is not a material weakness.

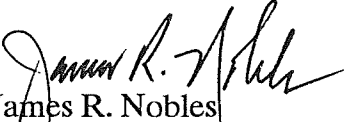
We also noted certain matters involving the internal control structure and its operation that we reported to the management of the Department of Corrections - Central Office in a meeting held on March 10, 1992.

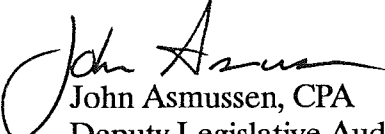
The results of our tests indicate that, except for the issues discussed in findings 2 and 3, with respect to the items tested, the Department of Corrections - Central Office complied, in all material respects, with the provisions referred to in the audit scope paragraphs. With respect to items not tested, nothing came to our attention that caused us to believe that the Department of Corrections - Central Office had not complied, in all material respects, with those provisions.

Pursuant to Minn. Stat. Section 3.95, this report shall be referred to the Attorney General. The Attorney General has the responsibility to ensure the recovery of state funds and in fulfilling that role may negotiate the propriety of individual claims.

This report is intended for the information of the Legislative Audit Commission and management of the Department of Corrections - Central Office. This restriction is not intended to limit the distribution of this report, which was released as a public document on June 25, 1992.

We would like to thank the Department of Corrections - Central Office staff for their cooperation during this audit.


James R. Nobles
Legislative Auditor


John Asmussen, CPA
Deputy Legislative Auditor

End of Fieldwork: February 28, 1992

Report Signed On: June 18, 1992

Department of Corrections - Central Office

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Audit Participation

The following members of the Office of the Legislative Auditor participated in this audit:

John Asmussen, CPA	Deputy Legislative Auditor
Warren Bartz, CPA	Audit Manager
Michael Hassing	Auditor-in-Charge
Mary Annala, CPA	Auditor
Melissa Gamble	Auditor

Exit Conference

The findings and recommendations in this report were discussed with the following staff of the Department of Corrections Central Office on March 10, 1992:

Orville Pung	Commissioner
Bruce McManus	Deputy Commissioner, Community Services
Frank Wood	Deputy Commissioner, Institutions
Lurline Baker-Kent	Assistant Commissioner, Management Services
Shirley Flekke	Fiscal Services Director
John Calabrese	Accounting Director
Julie Angeles	Personnel Director

Department of Corrections - Central Office

Introduction

The Department of Corrections was established to consolidate state correctional functions under one agency. The primary purpose of the department is public protection. The department is a service and regulatory agency which serves state institutions and community programs for adjudicated delinquent and adult felons. Commissioner Orville Pung provided the general management of the department since his appointment in 1982.

Central Office expenditures, excluding institutional appropriations, for the three fiscal years ending June 30, 1991, were:

	Year Ended June 30		
	1989	1990	1991
Community Corrections Grant	\$14,486,322	\$18,182,994	\$19,408,380
Community Services Grants	2,778,867	4,392,609	5,171,106
County Probation Reimbursement Grants	2,439,596	2,460,680	2,573,055
Other State and Federal Grants	<u>2,071,462</u>	<u>1,065,308</u>	<u>1,631,401</u>
Total State/Federal Grants	<u>\$21,776,247</u>	<u>\$26,101,591</u>	<u>\$28,783,942</u>
Payroll	9,888,393	11,034,226	13,021,367
Professional/Technical Services	4,372,545	4,610,866	5,416,161
Other Administrative Expenditures	<u>3,237,630</u>	<u>3,535,403</u>	<u>4,664,015</u>
Total Expenditures	<u>\$39,274,815</u>	<u>\$45,282,086</u>	<u>\$51,885,485</u>

Source: Statewide Accounting System Managers Financial Report as of August 31, 1991; September 1, 1990; and September 2, 1989. Final Report - Appropriation Accounts and Related Aids for Fiscal Year 1990 as of September 4, 1991.

The department is organized into four main divisions:

- The Institution Services Division operates the ten correctional facilities with a population of over 2,800. Support services include health care, education, correctional industry coordination, and inmate classification.
- The Community Services Division administers the Minnesota Community Corrections Program. This division also provides work release and parole services, inspection of local jails and other correctional facilities, and a wide range of community services programs.

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- The Management Division provides overall administrative, planning, policy development, training, and staff support service functions for the department. This division includes personnel, information and analysis, fiscal services, planning for women offenders, training, office management, and hearings and appeals.
- The Offices of Release have responsibility for providing probation, supervised work release, and parole services for over 7,000 juveniles and adults statewide.

Current Findings and Recommendations

1. The department needs to reduce excessive cash balances of participating counties in the Community Corrections Program.

Some participating counties under the Community Corrections Act have accumulated unused state funds. The total cash balances at the county level have grown in each of the past three calendar years. The cash balances reported as of December 1988 to 1990 were \$218,022, \$469,498, and \$660,871, respectively. Based on the financial status reports for 1989 and 1990, we identified seven counties with positive cash balances of state subsidy funds in each reporting quarter. For example, one county had an average cash balance on hand of \$84,385 and also received an average monthly payment of \$45,952.

The counties are entitled to receive these appropriated Community Corrections Act grants, as outlined in Minn. Stat. Sections 401.14 and 15. The counties receive a monthly advance payment from the department based on an allocation formula. The law requires the department to adjust allocations for any cash balances on hand. The funds are to provide resources for correctional services at the local level. The department has a fiscal responsibility to maintain control over state funds distributed to the local level. The department needs to allocate these funds in a manner that minimizes cash held at the county level. Outlays of state resources must be matched as closely as possible to actual program expenditures.

Recommendation

- *The Department of Corrections should work more closely with the participating counties to reduce the excessive cash balances and develop strategies to prevent future cash balances from accumulating.*

2. Contracts administration needs improvement.

The Department of Corrections (DOC) has begun work and paid for certain professional and technical services without a written contract. Minn. Stat. Section 16B.06 authorizes the Commissioner of Administration to perform and review all contract management functions. Department of Administration policy and procedure ADM-188 requires a fully executed contract in the possession of both the agency and the contractor before services begin.

DOC-Central Office allowed contractors to begin work before they finalized the contracts. The Department of Finance requires written justification on why work began before the encumbrance of funds ("Chapter 16A Letter"). We tested ten contracts from fiscal year 1992 and found that vendors began work on five contracts before final approval and encumbrance. Central Office submitted Chapter 16A letters for all five contracts.

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Although Chapter 16A letters may justify the reasons for contract delays, they are only to be used in unique situations and not to become routine. The department used the 16A letter 61 and 70 times in fiscal years 1990 and 1991, respectively. DOC-Central Office must ensure sufficient lead time to complete contracts before services begin.

Recommendation

- *To improve contract administration, the department should authorize and encumber contracts before work begins and obligations are incurred.*

3. Managerial staff at correctional facilities were compensated inappropriately for hours not worked.

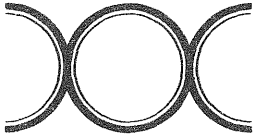
Some facilities paid associate wardens, assistants to the warden, and assistant superintendents compensatory time for on-call assignments. The bargaining agreement for these employees states that managers cannot earn compensatory time except in emergencies declared by the appointing authority. The facilities scheduled on-call hours in advance, not in emergency situations. While conducting recent audits of correctional facilities, we found that this problem existed at the Willow River/Moose Lake facility. Therefore, it is likely that the problem exists at the other facilities we have not audited.

A January 1988 memorandum from the Department of Corrections central office established a policy whereby managerial employees assigned to be “officer of the day” for a seven day period could be granted one day compensatory leave after completion of the assignment. In December 1989 the Department of Corrections requested formal approval from the Department of Employee Relations for this policy. Employee Relations did not approve the request. The department discontinued the policy of compensating managers who were assigned on call as “officer of the day” on June 21, 1991. The department sent a memorandum after we brought the problem at MCF-Willow River/Moose Lake to the department’s attention. We also found the same situation occurring at MCF-Stillwater, but no cash payments were made.

Pursuant to Minn. Stat. Section 3.975, we had referred our August 22, 1991 report on Willow River/Moose Lake to the Attorney General. The Attorney General has the responsibility to ensure the recovery of state funds, and in the fulfilling that role may negotiate the propriety of individual claims. Pending the Attorney General’s action on that matter, the department needs to assess the situation at the other facilities. It must be prepared to pursue similar remedies if it finds more problems like the Willow River/Moose Lake situation.

Recommendation

- *The department should determine the amount of compensatory time paid to ineligible employees at all facilities, and work with the Attorney General’s Office to obtain repayment if necessary.*



June 15, 1992

Mr. James R. Nobles, Legislative Auditor
Office of the Legislative Auditor
Centennial Building
St. Paul, MN 55155

Dear Mr. Nobles:

Attached is our response to your audit report
of our Central Office for the period ending
June 30, 1991.

We appreciate the financial audit review of
our operations, your comments and recommendations
and the professionalism of your staff in perform-
ing the audit.

Sincerely,

Orville B. Pung
Commissioner

Attachment

O P B : s f

AUDIT RESPONSE

1. The Department of Corrections should work more closely with the participating counties to reduce the excessive cash balances and develop strategies to prevent future cash balances from accumulating.

The current method of adjusting for the cash balance at a county is to withhold that balance from the following year's subsidy payments. Cash can build up at the county because a county is not spending its subsidy at the level budgeted or because it is not using state institutions at the level projected in the budget.

In the future when reviewing the Comprehensive Annual Plans submitted by the CCA counties we will look at each county's history of cash balances and work more closely with those counties carrying an excess cash balance to prevent high balances from accumulating.

Persons Responsible: Ralph Fredlund, Fin. Mgmt.
& Community Svcs. Support Dir.
Completion Date: Change in review policy
already implemented.

2. To improve contract administration, the department should authorize and encumber contracts before work begins and obligations are incurred.

The department presented four contract training sessions for all applicable DOC staff (training sites: MCF-SCL, MCF-STW, MCF-RW, and Central Office). These sessions provided instruction on contract form, content and processing requirements. It is anticipated that this training will reduce the incidence of Chapter 16A letters.

The department will monitor the 16A letter situation from July 1, 1992 through September 30, 1992. After analysis of the data, a meeting with the assistant and deputy commissioners will be held to develop an action plan to address any problems noted in the three month period.

Person Responsible: John Calabrese, Fin. Mgmt.
Completion Date: November 1, 1992

3. The department should determine the amount of compensatory time paid to ineligible employees at all facilities, and work with the Attorney General's Office to obtain repayment if necessary.

The department has determined the amount of compensatory time paid to managers for on-call assignments at all of our facilities. We will work with the Attorney General's office to resolve this issue.

Person Responsible: Shirley Flekke, Fin. Mgmt.
Completion Date: November 1, 1992