DEPARTMENT OF CORRECTIONS

Central Office and Correctional Facilities

*SELECTED SCOPE FINANCIAL AUDIT

FOR THE YEAR ENDED JUNE 30, 1992

DECEMBER 1993

*See description of this new report style in the following Note to Report Readers.

Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

93-59

Centennial Office Building, Saint Paul, MN 55155 • 612/296-4708

Note to Report Readers

The Financial Audit Division introduces a new report style in nine audits being released during the Summer of 1993. The division plans to use the new style on a trial basis and will later evaluate report readers' preferences. The new style replaces the traditional format of reporting only on an "exception basis." In the traditional format, auditors commented primarily on problems which the reports presented as findings and recommendations. Readers may have grown accustomed to using report length as a gauge for the extent of problems. With the new style, report length is not a reliable indicator of the extent of audit findings. These new reports contain more extensive factual and analytical data. Report readers should find this additional information useful. The division has attempted to make the new report style easy to identify and understand.

Identifying the New Report Style

The division distinguishes the new style reports by printing the report title in red ink, rather than the black ink used for traditional financial audit reports. All Financial Audit Division reports continue to use the gray-colored report covers. The report title shows through the window cutout on the gray cover. The inside cover page highlights the new style. This Note to Report Readers follows the inside cover page and describes the new style.

New Features

The new reports devote a separate chapter to each major audit area. Chapters contain detailed information on the audit scope, analytical results, and conclusions. Each chapter also elaborates on applicable management practices and processes. Financial auditors have always accumulated this additional information, but traditionally retained the information in the working papers and did not publish it as part of the final report.

To provide for a quick understanding of the audit results, the chapter structure allows readers to visually scan for items of interest or concern. Readers should look for the following features in each chapter:

1. The audit conclusions summarized at the beginning of the each chapter,
2. Tables and charts highlighting important financial information, and
3. Any audit findings and recommendations.

Aside from the format for presenting audit findings and recommendations, the new report style preserves the other elements of the traditional financial audit report. Report readers should recognize these other standard elements of the traditional reports: (1) Scope and Conclusions Letter, (2) Table of Contents, (3) Introduction, (4) Agency Response, and (5) an inserted Report Summary (although the new style uses a modified version of the report summary). Audit findings continue to be numbered and presented in bold-faced print. Recommendations are highlighted in italics. However, the Audit Findings and Recommendations are embedded in the appropriate report chapters, rather than aggregated in a separate report section.

Reasons for the Change

The traditional financial audit reports have several limitations. The reports often tend to be very technical documents. Also, reports with few findings communicate the audit results in a very abbreviated manner. Exception-based reporting requires auditors to either present audit findings or to simply state that the audit revealed no findings. This reporting style does not allow for positive conclusions or analysis of areas without audit findings.

The division was concerned about the risk that some report readers may have difficulty understanding audit results. It had begun to narrow its audit scope for several larger, more complex agencies. These "selected scope" audits were an effort to stretch scarce staff resources into as many audits as possible. But the division was particularly concerned that readers would project the audit results from a few selected programs to conclusions about an entity's overall financial management. The new report style more effectively presents the audit scope within the context of the entity's total operations.

Exception-based reporting does not fully accommodate the extent that auditors must exercise professional judgment. Auditors must interpret laws and policies. They must weigh the costs of control deficiencies against the benefits of preventing potential problems. It is particularly challenging to audit entities that are exempt from standard state policies and regulations. For those audits, the auditors must judge whether the entity has adopted "reasonable" and prudent practices for a public entity. Many issues require difficult decisions about whether or not an audit finding exists. Under the traditional report format, the auditor presents comments only when concluding that a finding exists. The new report style removes this limitation. Although the auditor's judgment remains important, the new report style also allows readers to reach their own conclusions.

Audits with the New Report Style

Look for the new report style in the audits of the following nine entities.

- Department of Corrections
- State University System
- Department of Natural Resources
- Minnesota State Lottery
- State Public Defender
- Department of Human Services
- Community College System
- University of Minnesota Medical School
- Environment and Natural Resources Trust Fund

Eight of the nine are "selected scope" audits covering only some programs of the entity. The Minnesota State Lottery is an entity-wide audit limited to testing for legal compliance with state laws and regulations.

Share Your Comments

If you have comments about the new report style, please contact the Financial Audit Division at (612) 296-1730.

DEPARTMENT OF CORRECTIONS

SELECTED SCOPE FINANCIAL AUDIT
FOR THE YEAR ENDED JUNE 30, 1992

Public Release Date: December 16, 1993 No. 93-59

AGENCY BACKGROUND

The Department of Corrections is a service and regulatory agency which oversees the correctional facilities and community programs for adjudicated delinquent and adult felons. Commissioner Orville Pung provided the general management of the department from 1982 to September 8, 1993. Frank W. Wood was appointed commissioner effective September 9, 1993.

SELECTED AUDIT AREAS

- *Minnesota Correctional Industries (MCI) Program*

The MCI Program has reported losses every year since inception. Financial operations could be improved to achieve greater cost efficiency and reduce state subsidies. Weak controls over the MCF-Lino Lakes print shop have resulted in many improper practices, including instances of employee misconduct.

- *Work Release Program*

Under the work release program, inmates work in jobs in the community or attend vocational school while residing in a halfway house, which usually is under contract with the department. The program has grown rapidly in recent years. The department must keep pace with this increased financial activity by strengthening its system for recovering per diem costs from inmates. We found inconsistencies in billing inmates for room and board.

- *Dedicated Revenue*

The largest single source of dedicated revenue earned by the department is from housing contract inmates. Other types of nondedicated revenue also were deposited, especially at the facilities. Most dedicated revenue was properly collected and processed by the department. However, some nondedicated revenue was improperly deposited in the facilities' discretionary accounts.

- *Payroll*

Employee payroll expenditures for the department totaled $95,992,000 in fiscal year 1992 at the central office and the ten facilities. Payroll transactions were processed properly and adequately controlled within the department. However, we are concerned about the excessive number of overtime hours at the MCF - Lino Lakes industries program.

- *Grants*

The Community Corrections Act (CCA) of 1973 was enacted to encourage counties to develop community corrections programs to sanction less serious offenders locally, reserving state prison space for dangerous, repeat offenders. Thirty counties currently participate in the program and 57 receive the county probation officer salary reimbursement. We found that the department was administering these programs properly.

Contact the Financial Audit Division for additional information. [296-1730]

STATE OF MINNESOTA
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JAMES R. NOBLES, LEGISLATIVE AUDITOR

Senator Phil Riveness, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. Frank W. Wood, Commissioner
Department of Corrections

Audit Scope

We have conducted a financial related audit of the Department of Corrections and its activities at some Minnesota correctional facilities as of and for the year ended June 30, 1992. We have also made a study and evaluation of the internal control structure of selected segments of the Department of Corrections in effect during May 1993. The Introduction provides a brief description of the agency's activities and finances. Chapters 2 to 6 discuss the results of our audit.

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 are free of material misstatements.

We performed tests of the Department of Corrections's transactions to obtain reasonable assurance that the department had, in all material respects, administered its programs in compliance with applicable laws and regulations. However, our objective was not to provide an opinion on overall compliance with such provisions.

Our testing was done at the central office as discussed in Chapters 3, 4, 5, and 6. Testing was also done at MCF - Stillwater, MCF - St. Cloud, MCF - Oak Park Heights, MCF - Shakopee, MCF - Lino Lakes, MCF - Red Wing, MCF - Sauk Centre, and MCF - Faribault, as discussed in Chapters 2, 4, and 5.

Management Responsibilities

The management of the Department of Corrections is responsible for establishing and maintaining an internal control structure. This responsibility includes compliance with applicable laws and regulations. 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 Department of Corrections and the statewide accounting systems in accordance with Corrections and Department of Finance policies and procedures, respectively.

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:

- payroll,
- industries revenue and expenditures,
- Community Corrections Act grants,
- county probation officer reimbursements,
- Work Release Program revenue and expenditures, and
- revenue from housing other states' inmates and related expenditures.

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. Our review was more limited than would be necessary to express an opinion on the Department of Corrections's system of internal accounting control taken as a whole. We also considered whether the Department of Corrections's financial activities were conducted in a reasonable and prudent manner for a public entity. To achieve this objective, we reviewed selected financial policies and practices in effect during the audit period. Our review did not include analyzing the components of the industries program burden rate; therefore, we do not express an opinion on that area.

Conclusions

Our study and evaluation disclosed the conditions discussed in findings 1 to 10 involving the internal control structure of the department. We consider these conditions to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data.

A material weakness is a reportable condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial activities being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We believe none of the reportable conditions described above is a material weakness.

However, we also noted other matters involving the internal control structure and its operation that we reported to the management of the department at the exit conference held on October 5, 1993.

The results of our tests indicate that, except for the issues discussed in findings 7 and 9, with respect to the items tested, the department 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 had not complied, in all material respects, with those provisions.

Pursuant to Minn. Stat. Section 3.975, this report shall be referred to the Minnesota Attorney General and the Anoka County Attorney. 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. The Attorney General and the Anoka County Attorney also shall cause criminal proceedings to be instituted by the proper authority as the evidence may warrant.

This report is intended for the information of the Legislative Audit Commission and management of the Department of Corrections. This restriction is not intended to limit the distribution of this report, which was released as a public document on December 16, 1993.

We thank the department staff for their cooperation during this audit.

James R. Nobles
Legislative Auditor

John Asmussen, CPA
Deputy Legislative Auditor

End of Fieldwork: June 11, 1993

Report Signed On: December 10, 1993

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Audit Participation

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

John Asmussen, CPA	Deputy Legislative Auditor
Warren Bartz, CPA	Audit Manager
Ken Vandermeer, CPA	Auditor-in-Charge
Ron Mavetz, CPA	Auditor
Rhonda Regnier, CPA	Auditor
Pat Ryan	Auditor

Exit Conference

The issues in this report were discussed with the following staff of the Department of Corrections on October 5, 1993:

Frank W. Wood	Commissioner
James Bruton	Deputy Commissioner, Institution Services
Richard Mulcrone	Deputy Commissioner, Community Services
Lurline Baker-Kent	Assistant Commissioner, Management
Daniel O'Brian	Assistant to the Commissioner
Shirley Flekke	Financial Services Director
Mary Khanke	Accounting Director
Pete Maurer	Operations Director
Denis Doege	Alternative Services Program Manager
Tom Drobac	Work Release Director
William Guelker	Community Services Regional Director
Donald Tomsche	Corrections Industry Program Coordinator
Fred LaFluer	Superintendent, Minnesota Correctional Facility - Lino Lakes

Chapter 1: Introduction

The primary purpose of the Department of Corrections is public protection. The department is a service and regulatory agency which oversees state institutions and community programs for adjudicated delinquent and adult felons. Commissioner Orville Pung provided the general management of the department from his appointment in 1982 to September 8, 1993. Frank W. Wood was appointed commissioner effective September 9, 1993.

The department is organized into three main divisions as shown in Figure 1-1:

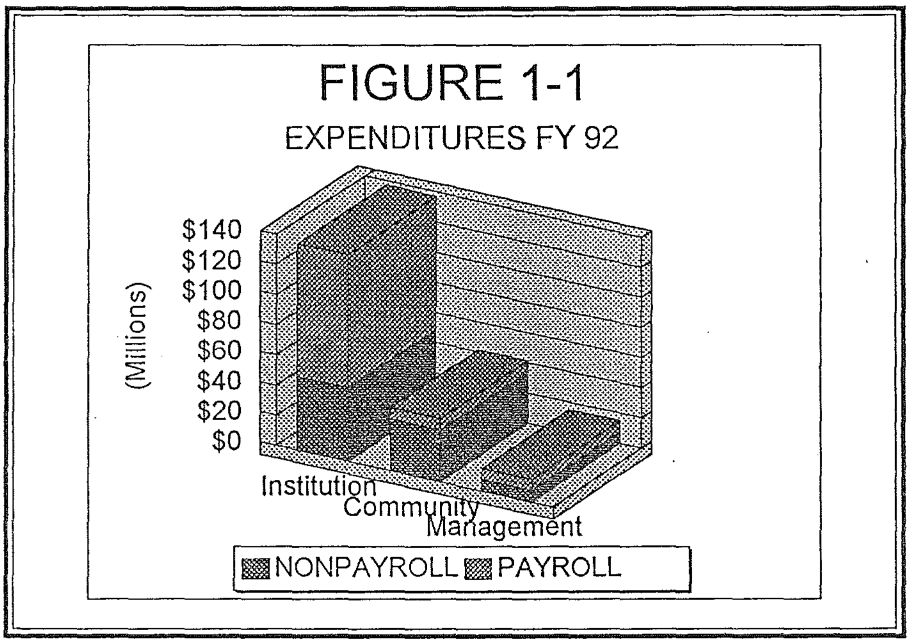


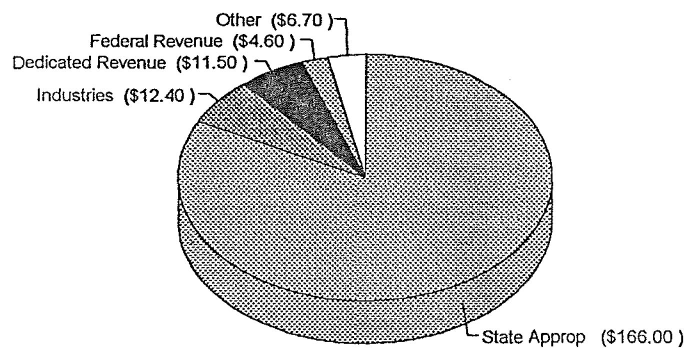
Figure 1-1 shows the breakdown of the department's expenditures of $193,348,846 for payroll and nonpayroll charges in fiscal year 1992.

Department of Corrections

Figure 1-2 shows the percentage breakdown of the sources of financing in the department, totaling $201,159,477 .

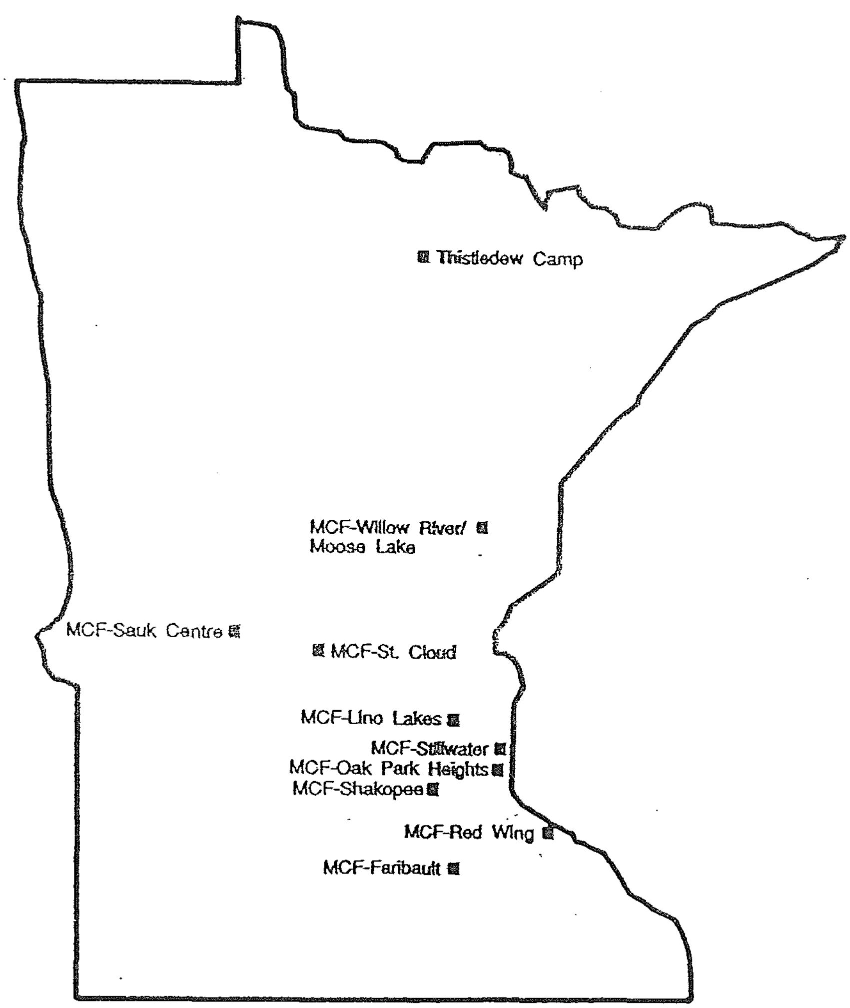
Figure 1-2

Department of Corrections
FY 1992 Financing Sources (Million $)



The locations of the ten correctional facilities are shown in Figure 1-3. MCF-Red Wing and MCF-Sauk Centre service youthful offenders. MCF-Shakopee and MCF-Willow River/Moose Lake house female inmates. Thistledew Camp is a forestry camp for youthful offenders. The remaining facilities are for adult male offenders.

Figure 1-3
Correctional Facility Locations



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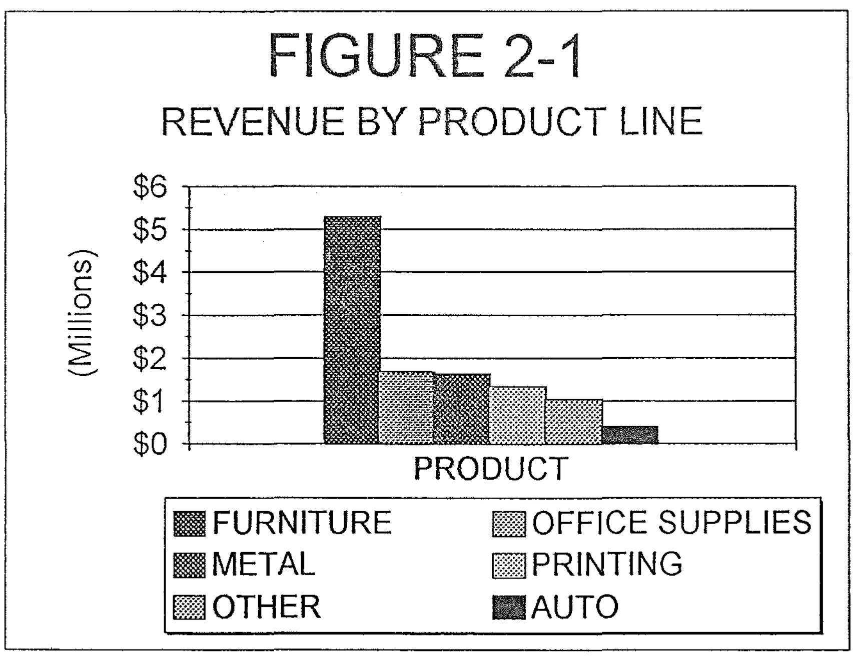
Chapter 2: Minnesota Correctional Industries Program

Chapter Conclusions

The Minnesota Correctional Industries (MCI) Program has reported losses every year since inception. The facilities attach the programs with educational goals and do not manage the programs to achieve full cost recovery. Financial operations could be improved to achieve greater cost efficiency and reduce state subsidies. Weak controls over the MCF-Lino Lakes print shop have resulted in many improper practices, including instances of employee misconduct.

Minnesota Correctional Industries Programs provide positive activities for inmates while incarcerated. The MCI Program helps inmates develop work skills they can use in finding employment after release and enables them to become contributing members of society. The program also provides structured activity for the inmates and helps reduce the volatility of the prison environment.

Industries programs exist at six of the ten facilities. The various industry product lines and the revenue generated are shown in Figure 2-1.



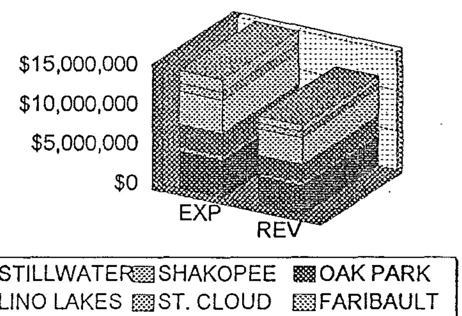
Source: Statewide Accounting System.

Department of Corrections

General Fund appropriations are used to subsidize a portion of the employee and inmate salary costs. The General Fund incurred approximately $4.3 million in industries costs during fiscal year 1992. The $4.3 million was used to cover the $3.6 million loss in Figure 2-3. In addition, the state subsidy was also used to fund salary costs associated with the "burden rate." The burden rate is comprised of the additional costs identified as necessary for operating a correctional facility rather than a business. These costs are for incarceration of inmates and would not be incurred by a noncorrectional entity operating a similar industries program. Figure 2-2 compares revenue to expenditures for the industry program for fiscal year 1992. The graph does not show the General Fund subsidies as a revenue.

FIGURE 2-2

REVENUES AND EXPENDITURES

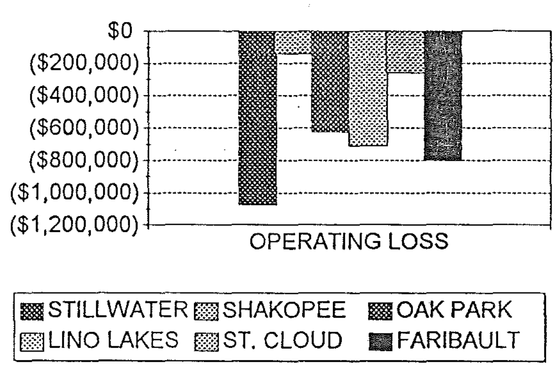


Source: Statewide Accounting System Manager's Financial Reports and Estimated/Actual Receipts Reports as of September 5, 1992.

Figure 2-3 summarizes the operating profit (loss) at each facility before the General Fund subsidy.

FIGURE 2-3

OPERATING PROFIT \ LOSS



Department of Corrections

The department's mission statement presented to the Legislature in the biennial budget proclaims that the program will be effective and self-sufficient. However, the facilities also attach the programs with educational goals and do not manage the programs to achieve full cost recovery. We believe the department could improve operations by establishing predefined levels of subsidies.

1. The department has not managed the MCI Program resources adequately.

The central office and the facilities do not agree on the intent of the industries program. The department's mission statement indicates the program is to be cost-efficient and self-supporting. However, the facilities believe the local programs are vocational programs and run them accordingly.

We believe it is not a choice of one or the other, but rather a question of degree. The amount that will be subsidized with a state appropriation in each facility should be addressed within its budget. All other expenses within the industries area could then be associated with a given job to achieve a reasonable profit margin and to be self-sustaining.

The facilities do not manage industry operations to be self-sufficient. We examined 34 production jobs at 4 facilities; we found that direct costs exceeded the sales price for 11 of the jobs. Many of the other 23 jobs would also have been unprofitable after considering overhead costs associated with the industry. We believe the problem is the result of:

- -- poor pricing practices;
- -- poor cost estimates; and
- -- failure to investigate costing variances.

In addition, MCF-Oak Park Heights and MCF-Faribault industries programs cannot determine if individual sales prices are covering program costs, because they do not allocate costs by job. Rather, they review data periodically to determine how the entire program is performing. We do not believe this method provides a timely review sufficient to ensure production jobs are not operating at a loss.

The department faces a dilemma in competing with the private sector. It cannot set prices higher than the private sector, or it will lose business. However, the department also cannot substantially underprice services, or it will upset private sector competitors. The department needs to communicate the goals of the industries program to the facilities, so the facilities can develop procedures to increase efficiency of industry programs and achieve an equitable balance against the private sector.

Recommendation

- *The department and facilities should reevaluate the mission and goals of the industry program and restructure operations to accomplish these goals.*

Department of Corrections

2. Despite several warning signals, financial problems have persisted in the MCF-Lino Lakes Industries Program.

At MCF-Lino Lakes, financial problems have not been resolved in a timely manner. Several warning signals or "red flags" were present, but did not prompt corrective actions. Several warning signals were present during the last three to five years. Examples include:

- -- Excessive and continual losses from sales;
- -- Inventory shrinkage and write-offs;
- -- Direct vendor payments to nonaccounting personnel;
- -- Personnel problems/employee purchases; and
- -- Employee conflicts of interest.

MCF-Lino Lakes has had chronic problems with its industries program. Weaknesses we identified in prior audit reports did not result in adequate corrective action. Instances of employee misconduct were discussed recently. The facility disciplined two employees, but the control structure was not corrected. Further action is necessary to prevent future instances from occurring.

The print shop staff also accepted open purchase orders from other state agencies at the end of the fiscal year. These purchase orders did not identify the services purchased until several months later. The department was susceptible to abuse from within, and subsequently employees tried to conceal cost overruns by using open purchase orders. The department needs to be cautious of permitting state agencies to execute an unauthorized carryover of state funds. Its present practice allows agencies to circumvent controls and increase their state appropriation the following year.

Recommendations

- *MCF-Lino Lakes and the central office should restructure the industry administrative staff, including supervision in the various areas.*
- *MCF-Lino Lakes should be cautious about accepting open purchase orders from other state agencies..*

3. Controls over MCF-Lino Lake's print shop operation are weak.

Poor controls over MCF-Lino Lake's print shop operation resulted in numerous operational deficiencies and some instances of employee misconduct. Currently, the print shop foreman has control over the entire operation. The foreman can purchase goods, bid and accept sales, produce products, control costs charged to a job, and create billings. These functions are incompatible and need to be performed by separate individuals. The following instances occurred because of the poor controls over the print shop.

Department of Corrections

- A shop foreman produced and sold job orders to a vendor and kept the proceeds. The shop foreman was able to accept and process an order, produce a product, deliver goods to the vendor, and collect money on the sale without being immediately detected. The theft was detected when a misplaced invoice was accidently discovered by the receivable clerk who contacted the vendor. The vendor said it had made direct payments of over $3,000 to the foreman for this and other invoices.

- A salesman produced a number of jobs without following the proper job order or costing procedures. In one example, the salesman requested an outside vendor to begin work on a job prior to executing a final contract with the client.. The job was not allowed under state and federal guidelines, and was subsequently cancelled. However, the print shop incurred $6,300 in production costs before the job was cancelled. The client refused to cover these costs.

- A salesman sold goods to his private business for a reduced price which was much less than actual cost. This action constituted a conflict of interest that was contrary to the employee code of ethics.

- Employees charged costs to the wrong job. Since some of these errors were intentional, we believe the activity occurred to conceal cost overruns that were the result of underbidding or poor job cost estimates.

- Accounting records showed 23 work orders were not billed. The print shop wrote off charges from these work orders because of inadequate accounting records. These jobs incurred $16,824 in production costs. The accounting records were insufficient to determine if projects were cancelled or if job costs were recovered on other billings. The print shop controlled the assignment of work order numbers and costs.

- The print shop wrote off $29,000 of the $161,058 inventory balance during fiscal year 1992. In fiscal year 1992, total purchases were $406,881. The adjustment erased the differences between recorded and actual inventory based on a physical inventory count taken at year end. The department needs to develop controls to ensure unused inventory is properly secured and inventory usage is properly recorded and charged to a job. A physical inventory needs to be taken on a regular basis to correct the inadequacies in a timely manner.

The print shop has been operating at a loss since inception. The shop lost $123,235 in fiscal year 1991 and $98,767 in fiscal year 1992. The losses result from items mentioned in the preceding paragraphs as well as weaknesses identified in finding 1. The print shop does not set standard prices for its jobs. Job costs must be estimated on each bid. Currently, the shop supervisors bid the sales. The bids are not based on historical cost information but rather on their experience on what jobs cost to run. Nobody oversees the bidding and sales duties performed by the shop supervisors. The sales bids need to be performed by someone independent of the production process and based on historical production costs. The print shop could reduce losses caused by incorrect bidding if it separated sales and production duties.

Recommendations

- *MCF-Lino Lakes should establish an adequate system of control, including separation of duties.*
- *MCF-Lino Lakes should take steps to ensure employees do not have conflicting business interests.*
- *MCF-Lino Lakes should complete a physical inventory count at least monthly.*

4. Controls over the receipt of consumable inventory in MCF-Lino Lake's Industries Program are weak.

A weakness exists over the receipt of goods at MCF-Lino Lakes. Employees receiving goods do not provide evidence of receipt by signing and dating receiving reports. Six of the ten receiving reports tested for fiscal year 1992 were not initialed and dated. Receiving reports are a primary control in the purchase of goods. Receiving reports identify the receipt and acceptance of goods and authorize the accounting section to pay outstanding invoices. Unauthorized payments may occur when receiving reports are improperly reviewed, dated, and authorized.

The industries buyer is in charge of processing the receiving reports. The buyer receives the shipping documents and creates an agency receiving report based on the information. The receiving report provides additional cost code information which will be entered by the accounts payable section. The receiving report and shipping document are then supposed to be sent to the accounts payable section for payment. However, the accounts payable section often has to request receiving reports from the buyer so outstanding invoices can be paid. In some cases, the accounts payable section would have to pay bills without obtaining a receiving report. Payment for goods not received may occur when the accounts payable section does not submit receiving reports timely.

Recommendations

- *Shipping documents should be initialed and dated to indicate receipt and acceptance of goods.*
- *The department should develop procedures to ensure receiving reports are received by the accounts payable section in a timely manner.*

Chapter 3. Work Release Program

Chapter Conclusions

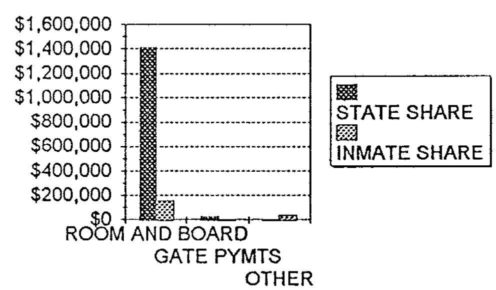
The work release program has grown rapidly in recent years. The department must keep pace with this increased financial activity by strengthening its system for recovering per diem costs from inmates. We also found some inconsistency in billing work release inmates for room and board.

Under the work release program inmates work in jobs in the community or attend vocational school while residing at a halfway house. A halfway house is a public or private agency that is under contract with the Department of Corrections. The halfway house provides a structured living environment with close supervision and surveillance for inmates that qualify for the work release program. The department also contracts for other services, such as counseling and job-seeking skill development. The goal of the program is to assist the inmate in making a positive adjustment into the work community.

Contract rates are based on a per diem charge for each inmate ranging from $36 to $44 each day. Inmates must pay $6 of each daily per diem, commencing with their first day of employment. The department pays the balance of the contract charges from an annual appropriation of approximately $1.4 million. The inmates must submit half of each paycheck to the central office to create a reserve account. The department uses the reserve account to pay the inmates' share of per diem charges and any court ordered payments (i.e., restitution, child support). If possible, the reserve account should finance a lump sum payment of $100 (gate fee) for the inmate's release. The distribution of the fiscal year 1992 amounts paid by the state and the inmates are shown in Figure 3-1.

FIGURE 3-1

FY 92 WORK RELEASE EXPENDITURES



Increasing prison populations have forced the state to move more inmates to halfway houses. The work release population doubled over the last five years. In fiscal year 1992, the department had to supplement its $1.4 million state appropriation with $86,641 of discretionary funds available to the commissioner (See Chapter 4). The department could reduce the need for additional funding by enforcing the current policies.

The current lack of control provides an opportunity for inmates to pay less than their share. As a result, the state absorbs additional costs that should never have occurred or that were the responsibility of the inmate. The department does not ensure the completeness of inmate payments into the reserve account.

5. Inmate earnings remitted to the central office are not properly controlled.

The Department of Corrections does not verify that inmates have submitted the required half of their earnings each payperiod. The department relies on the inmates for information about their work hours and their places of employment. It does not verify whether the inmates report all wages earned. Employers do not notify the halfway house or the central office of the number of hours that each inmate works.

In addition, one halfway house does not submit the supporting documentation (paystubs) to enable the work release staff to verify the 50 percent calculation. This vendor serves approximately 40 percent of the inmates in the work release program. The department relies on the vendor to review the supporting documentation to determine if the inmate complied with the 50 percent requirement. However, the vendor contract does not require this review, and the department does not review the vendors' records for compliance. The department has the ability to include the requirements in the contract.

Without a review of the 50 percent calculation, the department cannot be sure that the inmates submitted sufficient funds to cover per diem, gate fee, and court ordered payments. The "gate fee" (money given to inmates at their release) become outstanding balances that the department must pay according to statute. The department does not pursue the costs for room and board that are outstanding for collection (See finding 7). These costs increase the state's share of the charges. The court ordered payments remain a liability of the inmate. In fiscal year 1992, the state absorbed $13,500 of the $164,500, which was supposed to be paid by inmates.

Recommendations

- *The Department of Corrections should develop a method to verify completeness of its recovery of the inmates' share of work release costs.*
- *The department should include all expectations of halfway houses in the contracts.*

6. Controls over work release receipt and disbursement activity are weak.

The delegation of duties between program staff and accounting staff do not provide adequate control over receipts and disbursements of inmate money. Several incompatible duties are concentrated in one staff member. In one situation, nobody performs the control.

Program staff who open the mail do not record checks and money orders received from inmates. Receipts are not recorded until accounting staff prepare a receipt slip when they receive the money from the program staff. A list of mail receipts is needed to establish initial control and accountability. Without this control, the department cannot account for the completeness of deposits. Also, program staff do not restrictively endorse checks and money orders. Again, the accounting staff provides the control (restrictive endorsement on the back of the check), but not until deposit preparation. Immediate endorsement of checks at the point of receipt provides a control over funds lost or stolen before depositing.

The accounting staff receive checks and money orders directly from one vendor, creating an inappropriate concentration of duties. This vendor accounts for approximately 40 percent of the inmates in the work release program. The accounting staff must not receive money directly, because the staff is responsible for posting receipts to inmates' records and depositing the money. Errors or irregularities could occur and remain undetected if incompatible duties remain improperly separated.

Program staff do not compare inmate account activity to the money received or disbursements authorized by their unit. Accounting staff prepare a biweekly statement of inmate account activity that summarizes receipts and disbursements. The accounting staff send this statement to the program staff to provide a control over the account. Without this review, incorrect postings or inappropriate charges may remain undetected.

Recommendations

- *Program staff should prepare a list or receipt slip for inmate money received. The individual responsible for reconciling the amounts deposited by the accounting staff should receive a copy of the list (or receipt slips) from the program staff.*

- *Program staff should receive checks or money orders.*

- *Program staff should restrictively endorse checks and money orders immediately upon receipt.*

- *Program staff should examine the account activity report received from accounting and investigate any variances or unusual activity.*

7. Charges for room and board are not consistently billed, accurately recorded, nor properly reported.

The department applied the first and last day of charges for room and board inconsistently to inmate accounts. Accounting staff informed us that some halfway houses bill for the last day an inmate resides at the halfway house. According to departmental policy, inmates are only liable for room and board from the first day of employment through the second to last day of residence in the facility. Some inmates were also charged for the first day of temporary employment, while others were not charged until the first day of full time employment. These inconsistencies result in overcharging and undercharging certain inmates.

The accounting system currently used to record the inmate accounts does not accurately reflect the outstanding balances. Manual notes on several pieces of paper account for amounts due from inmates when their balances are insufficient to cover the cost of room and board. These records to not provide sufficient control over the records to ensure that accounting staff record outstanding balances properly each month.

In addition, the department does not report outstanding amounts waived by the state to the Commissioner of Finance each month as required by Minn. Stat. Section 241.26, Subd. 7. The state absorbs any outstanding amounts not paid by the inmate. Since the department does not attempt to collect outstanding balances from the inmate, these amounts are essentially waived. The department reports the days waived before the inmate starts work in the work release program through fiscal year 1992. However, this amount must be increased by the state absorbed amount of $13,500 to comply with Finance requirements.

Recommendations

- *The department should apply charges for room and board consistently to inmates.*
- *The department should revise the accounting system to record the outstanding balances of accounts. These improvements should not be delayed until the area is computerized at a later date.*
- *The department should report room and board charges waived on a periodic basis to the Commissioner of Finance.*

8. PRIOR FINDING NOT IMPLEMENTED: Contract administration needs improvement.

The department started work and paid for some professional and technical services without a 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.

Central office employees 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 (known as "Chapter 16A Letter"). We tested 21 contracts from fiscal year 1992 and found that vendors began work on 13 contracts before final approval and encumbrance.

Chapter 16A letters document the reasons for contract delays. However, the department must only address unique situations, and usage is not to become routine. Central office used the 16A letter 61 and 70 times in fiscal years 1990 and 1991, respectively. 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 the department incurs obligations.*

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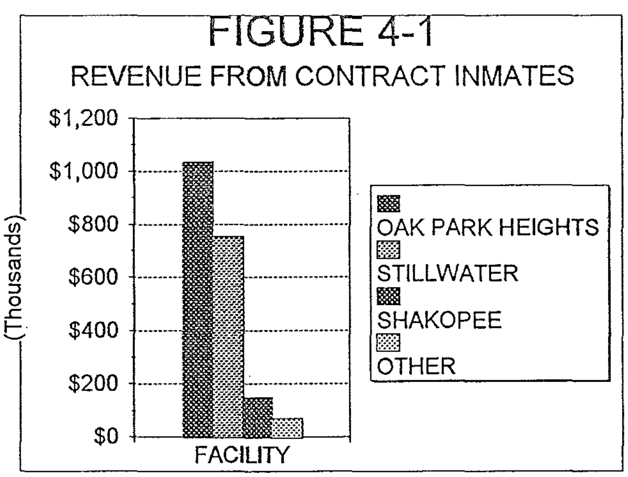
Chapter 4. Dedicated Revenue

Chapter Conclusions

Most dedicated revenue was properly collected and processed by the department. However, some nondedicated revenue was improperly deposited in the facilities' discretionary accounts instead of in the General Fund. Although the amounts are small, the facilities have expanded their spending authority and increased their discretionary fund reserve balance.

The largest single source of dedicated revenue earned by the department is from the housing of contract inmates. The department has entered into agreements with the federal government, other states, and counties, to undertake custody of inmates under its jurisdiction. The contracts specify a daily reimbursement rate based on the facility the inmate will be housed in and the status of the inmate. The rates vary from $64 to $225 per day. The billing, collection, and depositing of these receipts are done by the facilities housing the contract inmates. Most amounts are credited to a central office dedicated receipt account (MCF-Shakopee and MCF-Willow River/Moose Lake retain their contract inmate revenue). Fiscal year 1992 revenue generated from housing contract inmates totaled $2,010,345. Figure 4-1 provides a summary of contract inmate revenue by facility.



Source: Facility accounting records.

Correctional facilities also collect dedicated revenue earned from various sources. Table 4-2 is a summary of the sources of the dedicated revenues in fiscal year 1992.

Table 4-2
Sources of Facility Revenue
Fiscal Year 1992

Facility	Balance 7/1/91	Transfers In FY 92	Receipts FY 92	Liquidations	Balance 6/30/92
MCF-Faribault	$ 0	$ 0	$ 37,673	$ 17,412	$ 20,261
MCF-Oak Park Heights	183,107	36,000	49,100	184,764	83,443
MCF-Willow River	17,237	111,700	27,859	101,299	55,496
MCF-Sauk Centre	109,773	0	176,022	232,846	54,949
MCF-Lino Lakes	5,806	843,300	524,382	1,317,943	55,545
MCF-Red Wing	213,870	0	370,070	445,384	139,371
MCF-Shakopee	69,500	0	180,398	172,790	77,109
MCF-Stillwater	117,688	109,400	210,059	280,304	154,657
MCF-St. Cloud	349,355	94,300	35,543	371,588	107,610
	$1,066,336	$1,194,700	$1,613,106	$3,124,330	$748,441

Source: Facility accounting records not including industries and social welfare deposits.

Minn. Laws 1991, Chapter 292, Article 1, Section 6, allows the commissioner to use income received for housing contract inmates for correctional purposes. In fiscal year 1992, the commissioner allocated $1,194,700 of contract inmate revenue among facilities. We did not review the uses of these funds or the use of other dedicated revenue activity. The guidelines over these funds are quite broad and leave wide discretion to the commissioner.

9. **Some correctional facilities are diverting revenue from the General Fund to their dedicated accounts.**

Our review of facility depositing policies found there is inconsistent treatment of some types of revenue. Some of the amounts in Table 4-2 are properly handled by the department. However, we found that some facilities are depositing nondedicated revenue, which should be credited to the General Fund, into their dedicated revenue accounts. Dedicated revenue totaled $1,613,106, but some amounts were deposited in error. The effect of these errors is to expand the spending authority of the department. We found the following examples of revenue incorrectly deposited into facility dedicated revenue accounts:

- Expenditure refunds from General Fund expenditures,

Department of Corrections

- Restitutions from inmate destruction of state property,
- Employee repayment of various nonstate uses of state resources financed by the General Fund,
- Prison newspaper subscription receipts when postage for the newspaper is paid by the General Fund, and
- Fees received from the use of copy machines which were purchased and maintained by the General Fund or another fund.

Minn. Stat. Section 16A.72 requires that "all income, including fees or receipts of any nature, shall be credited to the General Fund," except for specific revenue sources that it identifies as dedicated to a state agency. The law does not dedicate the aforementioned revenue sources to the Department of Corrections.

The Department of Corrections needs to review the various sources of facility revenue and prepare a deposit policy that adheres to Minnesota laws.

Recommendations

- *The department should develop a department-wide policy that will serve as a guideline for depositing facility revenue by fund.*
- *The department should investigate and cancel incorrect deposits to the General Fund.*

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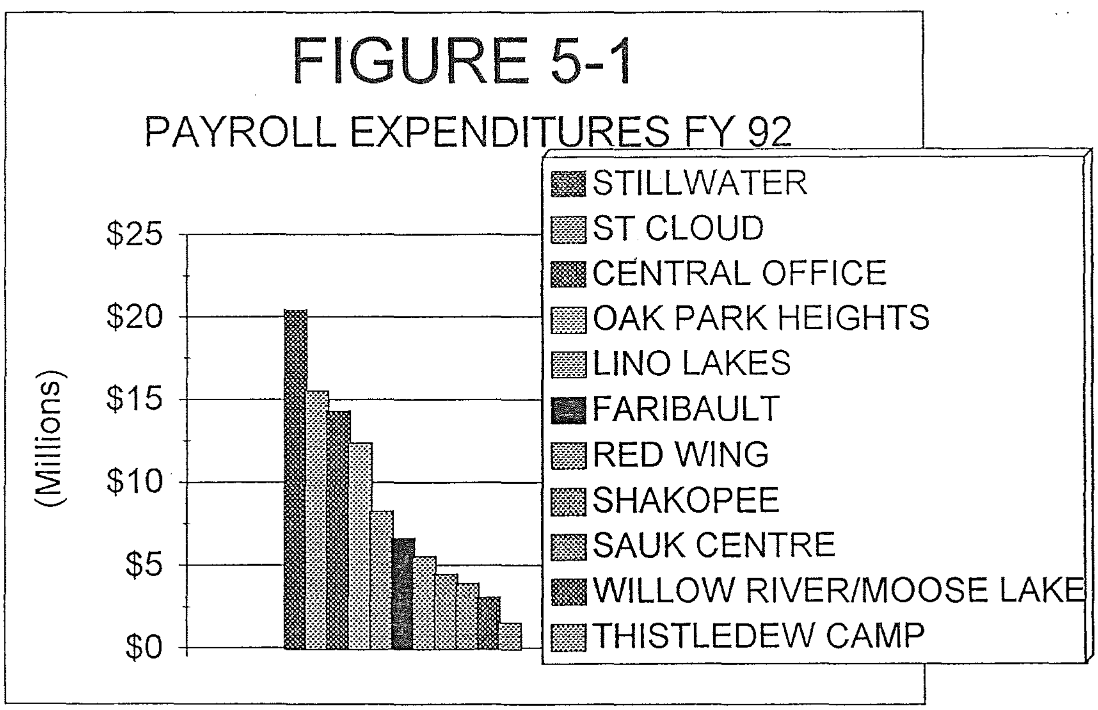
Chapter 5. Payroll

Chapter Conclusions

Payroll transactions are processed properly and adequately controlled within the Department of Corrections. However, we are concerned about the excessive number of overtime hours incurred within the MCF-Lino Lakes Industries Program.

Employee payroll expenditures for the Department of Corrections totalled $95,991,683 in fiscal year 1992. Figure 5-1 provides a summary of payroll expenditures by division. We tested payroll at 8 of the 11 divisions: Central Office, MCF-Faribault, MCF-Lino Lakes, MCF-Oak Park Heights, MCF-St. Cloud, MCF-Sauk Centre, MCF-Shakopee, and MCF-Stillwater. Employee payroll is processed within each division. Employees are required to submit biweekly timesheets to their supervisors. Supervisors review and approve the hours reported and submit the timesheets to payroll units located within each division. The payroll units accumulate the time sheets and enter the hours worked onto the state's central payroll system. The Department of Finance generates payroll checks from the data entered onto the payroll system and transmits them to each division for distribution to employees.



Source: Statewide Accounting System, Manager's Financial Report as of September 5, 1992.

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Our review of the payroll process at the department included an analysis of overtime hours at each facility. We found that the percent of overtime hours within the industry program at MCF-Lino Lakes was extremely high in relation to other department industry programs. Table 5-2 is a summary of the overtime hours at each of the facilities operating an industry program.

Table 5-2
Industry Overtime Hours
Fiscal Year 1992

Facility	Regular Hours	Overtime Hours	Overtime Percent
MCF-Lino Lakes	34,245	3,778	11.03%
MCF-Stillwater	66,389	711	1.07%
MCF-St Cloud	11,367	388	0.14%
MCF-Shakopee	5,475	7	0.13%
MCF-Oak Park Heights	23,947	19	0.08%

Source: Payroll Posting System

10. MCF-Lino Lakes incurs additional costs due to a high incidence of industries overtime hours.

The percentage of overtime hours compared to regular hours worked is much higher at MCF-Lino Lakes than at the other facilities. Most facilities have some overtime hours, especially those with industries programs. In accordance with employee union agreements, overtime hours are paid at a rate of one and one-half the employee's regular rate of pay.

We inquired of facility staff as to the reason for the excessive overtime hours at MCF-Lino Lakes. We were told that some causes for the excessive overtime hours are due to poor production planning, inefficient use of available production machinery, and inadequate delivery and set-up procedures.

As reported in Chapter 1 of this report, we cited several weaknesses in the financial operation of Lino Lakes industries program. The excessive overtime hours recorded at Lino Lakes may result in part because of these weaknesses in the industries program. The excessive hours could also indicate a need to hire additional staff. The 3,778 hours paid at time and one-half cost the equivalent of three full positions. (See Table 5-2).

Recommendation

- *The department should examine the overtime at MCF-Lino Lakes and investigate opportunities to bring the overtime hours down to a more reasonable level.*

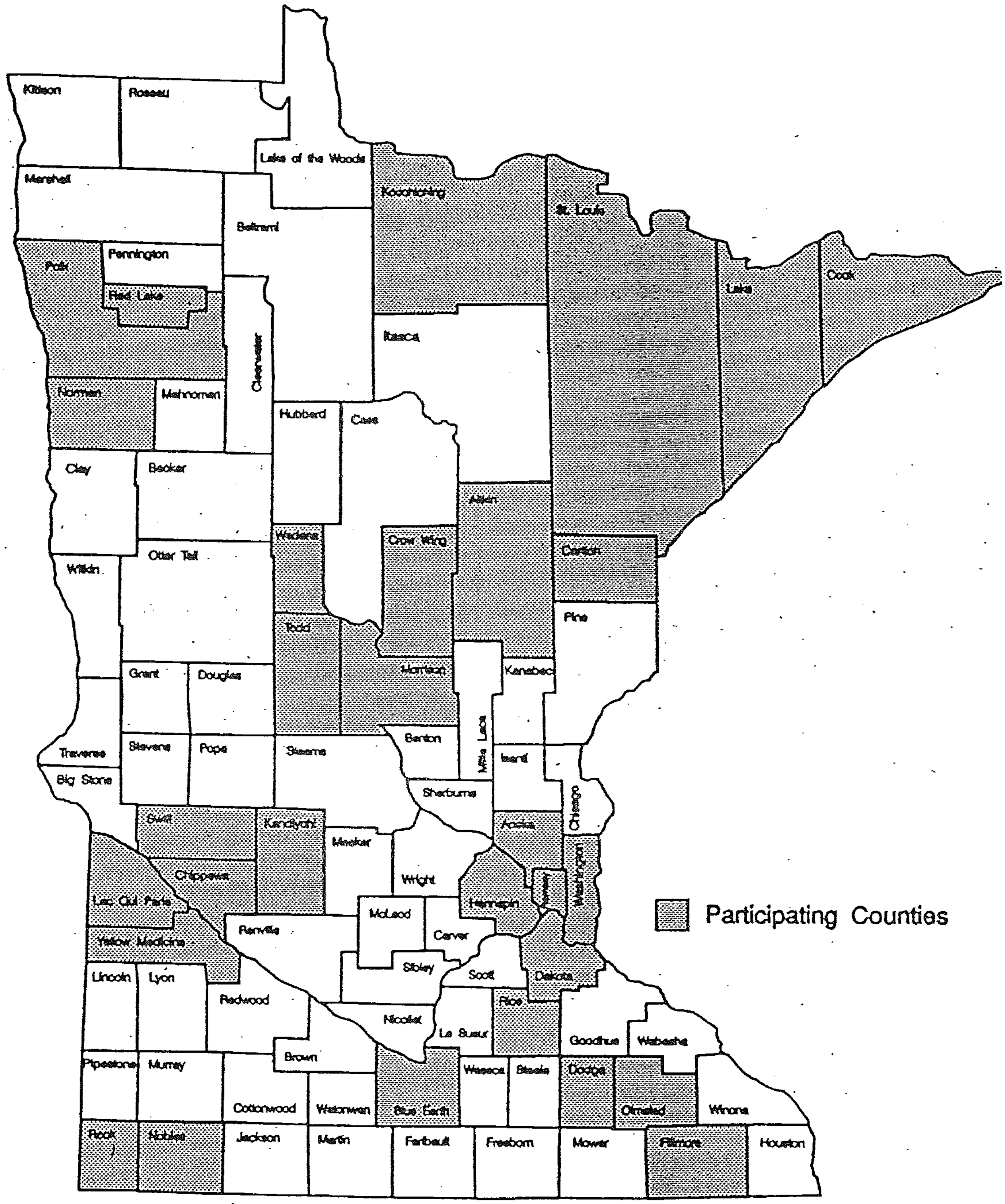
Chapter 6. Grants

Chapter Conclusions

The Community Corrections Act (CCA) subsidy is being administered properly by the Department of Corrections. Counties not participating in the CCA program are eligible for county probation officer reimbursements. The Department of Corrections is properly administering the county probation officer salary reimbursements.

The Community Corrections Act (CCA) of 1973 was enacted "for the purpose of more effectively protecting society and to promote efficiency and economy in the delivery of correctional services." The program encourages counties to develop community corrections programs so that less serious offenders can be sanctioned locally, reserving state prison space for dangerous repeat offenders. Participating counties receive a monthly CCA subsidy and report the use of the funds quarterly to the Department of Corrections. At the present time, 30 counties organized into 15 units participate in the CCA. Figure 6-1 identifies the participating counties.

Figure 6-1
Community Corrections Act Counties
Calendar Year 1992



Source: Department of Corrections Biennial Report 1991-1992.

Department of Corrections

The Department of Corrections allocates the CCA subsidy to the counties based on a statutory formula. It allocated $23,239,000 to the CCA counties for Fiscal Year 1992. Due to a change in Minn. Stat. Section 401.13 effective July 1, 1991, counties receive the CCA allocation with no deduction for use of state juvenile facilities. Since July 1, 1991, the Department of Corrections bills each county separately for each county's use of the state juvenile facilities and deposits these receipts into the General Fund. We did not audit the receipts of these billings to counties. Table 6-1 summarizes the statutory allocation and the amount of CCA subsidy paid to the participating counties.

Table 6-1
CCA Allocations and Payments
Fiscal Year 1992

Counties	Allocation To Counties	Paid To Counties
Anoka	$2,095,817	$2,113,241
Arrowhead (*)	2,979,929	2,824,432
Blue Earth	425,869	417,117
Central MN (*)	618,905	765,663
Dakota	1,718,390	1,697,067
Dodge/Filmore/Omstead	1,021,862	887,344
Hennepin	7,030,378	7,076,996
Kandiyohi	296,724	480,726
Ramsey	4,132,568	4,316,265
Region SW (*)	364,764	405,044
Rice	460,314	473,494
Rock/Nobles	241,235	288,340
Todd/Wadena	390,176	446,057
Tri-County (*)	380,456	393,047
Washington	1,081,613	1,024,480
Total	$23,239,000	$23,609,313

(*) The following county groups consist of:
Arrowhead: St. Louis, Carlton, Koochiching, Lake, Cook, and Aitkin. Aitkin left Central Minnesota and joined the Arrowhead group on 1/1/92.
Central MN: Crow Wing, Morrison, and Aitkin. Aitkin County through 1/1/92.
Region 6W: Chippewa, Swift, Yellow Medicine, and Lac Qui Parle.
Tri-County: Polk, Norman, and Red Lake.

The amount paid to counties for fiscal year 1992 exceeds the annual appropriation because counties are allowed to accumulate a reserve balance from prior year allocations that have not been spent.

Source: Department of Corrections CCA records.

Department of Corrections

In our previous audit report for the Department of Corrections, we cited a problem with excessive cash balances of participating CCA counties. The Department of Corrections has been working with counties to reduce the cash balances. We analyzed eight of the participating counties and found their current cash balances to be appropriate after the March adjustments. These adjustments reduced the monthly payment for counties that had surplus funds as of January 1.

The remaining 57 counties not participating in the CCA receive the county probation officer salary reimbursement from the General Fund. The reimbursements are calculated according to Minn. Stat. Section 260.311, Subd. 5 and paid to the counties once a year. Counties are reimbursed half of their eligible salary costs as allowed by statute. The Department of Corrections paid $2,832,143 under this program in fiscal year 1992. We found that the department had accounted for the reimbursements properly.

Prior to July 1, 1991, the Department of Corrections received dedicated receipts from the Department of Public Safety to fund this program. The Department of Corrections received 50 percent of the fees collected from persons reinstating their drivers license after being revoked due to driving while intoxicated. Beginning July 1, 1991, the Probation Officers Salary Reimbursements are paid out of the General Fund.

Some probation officer positions at the counties are staffed by state employees, so these counties reimburse the state. According to Minn. Stat. Section 260.311, Subd. 4, the counties are billed for any state paid probation officers working at the county level. These billings are made twice a year and revenue is deposited into the General Fund as nondedicated. We did not audit this revenue.

Minnesota Department of Corrections

Office of the Commissioner

December 7, 1993

James R. Nobles
Legislative Auditor
Office of the Legislative Auditor
First Floor Centennial Building
St. Paul, Minnesota 55155

Dear Mr. Nobles:

We have received and reviewed your combined financial audit of the Department of Corrections for the year ended June 30, 1992. Our response to your audit findings and recommendations is attached as requested.

Your audit reports serve as helpful tools and guides in the management of the department and in safeguarding of the state assets under our stewardship. Your recommendations help us to strengthen our internal control and administrative processes to accomplish that end. The audits also help the department to meet the professional accreditation standards of the American Correctional Association.

I would like to point out that the findings relating to MCF-Lino Lakes' Industries were recognized and were being acted upon prior to the audit. Department of Corrections' staff brought these findings to the attention of the auditors. It should also be noted that two staff were disciplined which included the termination of an Industries Foreman.

A team of department staff will be appointed in December to examine the Lino Lakes Industries operation to assure that internal controls and procedures are in place and effective in the operation of the program.

Should you have any questions about our response, please do not hesitate to call me or my staff.

Sincerely,

Frank W. Wood

Frank W. Wood
Commissioner

FWW/SF:dl
Attach.

300 Bigelow Building • 450 North Syndicate Street • St.Paul, Minnesota 55104 • 612-642-0282

MINNESOTA DEPARTMENT OF CORRECTIONS
LEGISLATIVE AUDIT RESPONSE
FOR THE YEAR ENDED JUNE 30, 1992

CHAPTER 2: MINNESOTA CORRECTIONAL INDUSTRIES PROGRAM

1. The department has not managed the MCI Program resources adequately.

   RECOMMENDATION:

   - The department and facilities should reevaluate the mission and goals of the industry program and restructure operations to accomplish these goals.

   RESPONSE:

   - In the interest of establishing a more centralized correctional industries program, a coordinated plan is underway. An individual will be appointed to direct a cooperative effort between institution heads and industry directors to reevaluate the mission of Minnesota Correctional Industries. The focus and goal will continue to be, to operate a cost-effective, self-sustaining program that will reduce inmate idleness while at the same time teach inmates constructive work skills and habits.

     Person Responsible: James Bruton
     Implementation Date: January 1, 1994

2. Despite several warning signals, financial problems have persisted in the MCF-Lino Lakes Industries Program.

   RECOMMENDATION:

   - MCF-Lino Lakes and the central office should restructure the industry administrative staff, including supervision in the various areas.

   RESPONSE:

   - Duties and responsibilities within Lino Lakes' Industries have been separated and changed to provide and strengthen internal controls and implement sound business practices. It should be noted that warning signals were recognized and responded to by Lino Lakes' staff prior to the audit. Current operating policy and procedures have been in place since February, 1993. All staff have received copies of the manual and are responsible for its contents.

     Person Responsible: Fred LaFleur
     Implementation Date: February 20, 1993

RECOMMENDATION:

- MCF-Lino Lakes should be cautious about accepting open purchase orders from other state agencies.

RESPONSE:

- MCF-Lino Lakes sales staff follow up on a continuous basis any state agency purchase order which does not specifically describe the items so that a production work order can be issued. A department-wide policy on open purchase orders will be developed and implemented.

  Person Responsible: Fred LaFleur, Shirley Flekke
  Implementation Date: September 17, 1993 at MCF-Lino Lakes; department-wide policy - January 1, 1994

3. Controls over MCF-Lino Lakes' print shop operation are weak.

RECOMMENDATION:

- MCF-Lino Lakes should establish an adequate system of control, including separation of duties.

RESPONSE:

- This audit covers findings prior to June 30, 1992, and since February, 1993, operating policy and procedures including internal control and the separation of duties in the print shop have been established and implemented. Full reimbursement of vendor payments collected by the former foreman has been made.

  Person Responsible: Jim Chappius
  Implementation Date: February 28, 1993

RECOMMENDATION:

- MCF-Lino Lakes should take steps to ensure employees do not have conflicting business interests.

RESPONSE:

- MCF-Lino Lakes Industries' staff discovered the conflict of interest in July, 1992, and immediate action was taken to correct the situation. Internal controls and procedures have been established to avoid any future conflicts. Pricing of all goods and services purchased by Department of Corrections' staff must have special approval by the industries director or designee. All staff orders are processed through the same procedure and receive the same scrutiny as all other customer orders including preparation by authorized sales staff and approval by a supervisor as well as examination by the accounting supervisor or designee.

Person Responsible: Jim Chappuis
Implementation Date: September 17, 1993

RECOMMENDATION:

- MCF-Lino Lakes should complete a physical inventory count at least monthly.

RESPONSE:

- Perpetual inventory records for print shop have been maintained by the Accounting Unit since January, 1992. Current procedure is to take cycle counts monthly, and if significant variances surface a physical inventory is scheduled. Cycle counts are an accepted business practice. A complete physical inventory is taken on June 30 of each year.

Person Responsible: Fred LaFleur
Implementation Date: January, 1992

4. Controls over the receipt of consumable inventory in MCF-Lino Lakes' Industries Program are weak.

RECOMMENDATION:

- Shipping documents should be initialed and dated to indicate receipt and acceptance of goods.

RESPONSE:

- Verification of proof of delivery responsibilities has been transferred to the Accounting Unit. At least two individuals, the person receiving the goods and the industries receiving coordinator, are involved in documenting proof of receipt prior to payment.

Person Responsible: Fred LaFleur
Implementation Date: September 17, 1993

RECOMMENDATION:

- The department should develop procedures to ensure receiving reports are received by the accounts payable section in a timely manner.

RESPONSE:

- Procedures have been established and implemented so that receiving documentation ensures timely and accurate payments.

  Person Responsible: Fred LaFleur
  Implementation Date: September 17, 1993

CHAPTER 3: WORK RELEASE PROGRAM

5. Inmate earnings remitted to the central office are not properly controlled.

RECOMMENDATION:

- The Department of Corrections should develop a method to verify completeness of its recovery of the inmates' share of work release costs.

RESPONSE:

- Work Release staff in consultation with Legislative Audit staff have developed a form, Receipt for Money Collected, to be submitted weekly by the halfway house along with the offender's money order. The form lists the net pay of the offender's check along with the determination of 50 percent of net pay. Work Release support staff will verify and approve the recovery of the inmates' share of work release costs.

RECOMMENDATION:

- The department should include all expectations of halfway houses in the contracts.

RESPONSE:

- To clarify responsibilities for ensuring the collection of 50 percent of offenders' monies, the Room and Board policy will be updated to clarify that case managers at halfway houses are responsible for monitoring this activity.

  Person Responsible: Thomas Drobac
  Implementation Date: January 1, 1994

6. Controls over work release receipt and disbursement activity are weak.

RECOMMENDATION:

- Program staff should prepare a list or receipt slip for inmate money received. The individual responsible for reconciling the amounts deposited by the accounting staff should receive a copy of the list (or receipt slips) from the program staff.

- Program staff should receive checks or money orders.

- Program staff should restrictively endorse checks and money orders immediately upon receipt.

<u>RESPONSE</u>:

- Work Release support staff will verify, utilizing the Receipt for Money Collected form, the receipt of money orders and will indorse the money orders. Money orders along with a copy of the receipt form will be forwarded to Financial Services.

<u>RECOMMENDATION</u>:

- Program staff should examine the account activity report received from accounting and investigate any variances or unusual activity.

<u>RESPONSE</u>:

- The Room and Board policy will be updated to reflect that agents are responsible for reviewing the Account Activities report from Financial Services and to ensure that the Work Release offender accounts are up-to-date and accurate.

  <u>Person Responsible</u>: Thomas Drobac
  <u>Implementation Date</u>: January 1, 1994

7. Charges for room and board are not consistently billed, accurately recorded, nor properly reported.

<u>RECOMMENDATION</u>:

- The department should apply charges for room and board consistently to inmates.

<u>RESPONSE</u>:

- Some halfway houses bill for the last day that an inmate resides in the halfway house and others do not. Some Work Release offenders are not billed for their last day in the program while others are billed.

  It has been the practice in this program that if an offender successfully completes Work Release and is released on his supervised release date, the Work Release unit is not billed for the last day. However, if the offender is terminated because of a violation, the halfway house bills for the last day and the offender is also charged.

If an offender is released in the morning, the halfway house is aware of the date and can book another offender into the bed space. But, if an offender is terminated for a violation, the halfway house has no time to plan for and book another offender for replacement. Also, more staff time and documentation is required from the halfway house when a releasee leaves because of a violation.

Policy and procedures regarding room and board already address this issue. For clarification, contracts developed and written for F.Y. 1995 will also incorporate this practice into the contract.

Person Responsible: Thomas Drobac
Implementation Date: July 1, 1994

- Offenders at times are not charged for room and board if their first job is temporary employment and will only last for a week or so. The decision was made for a program purpose not to charge room and board under these circumstances. It is in the best interest of the releasee that they not be charged for this short period of time when money earned on these temporary jobs may have to last the releasee for several days or weeks until another job can be found. Based on this decision, the Work Release unit will continue to waive charges for releasees' room and board when their only employment is temporary or short term.

Person Responsible: Thomas Drobac
Implementation Date: Not applicable.

RECOMMENDATION:

- The department should revise the accounting system to record the outstanding balances of accounts. These improvements should not be delayed until the area is computerized at a later date.

RESPONSE:

- Financial Services staff will revise and automate to the extent possible the work release accounting system in use so that all financial activity for work release inmates is recorded properly.

Person Responsible: Pete Maurer
Implementation Date: July 1, 1994

RECOMMENDATION:

- The department should report room and board charges waived on a periodic basis to the Commissioner of Finance.

RESPONSE:

- Financial Services staff will reinstitute preparation of a memo monthly to the Commissioner of Finance detailing room and board charges waived. Because Department of Finance staff have indicated in the past that this report of days waived is not utilized by Finance, a change in legislative language is being sought to eliminate the reporting requirement.

  Person Responsible: Pete Maurer
  Implementation Date: January 2, 1994

8. Prior Finding Not Implemented: Contract administration needs improvement.

RECOMMENDATION:

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

RESPONSE:

- Processing contracts for professional/technical services is a very complex, lengthy process. Recognizing this and in response to a previous audit finding, the department has provided department-wide training, shortened the processing time within the Central Office by consolidating the review and signature process, and modified the contract process by requiring submission of contracts in the Central Office one month in advance of the start date. Nevertheless, instances of work beginning before contracts are fully executed still exist.

  Many of these instances deal with the timely placement of inmates as a result of overcrowding in department facilities. Another common occurrence is the immediate purchase of medical services for inmates in response to medical emergencies. These are examples of instances which, by their very nature, develop spontaneously, require immediate action and do not lend themselves to contract processing deadlines. The department will continue to require diligent attention to contract processing deadlines by individual contract authorized agents, recognizing that in some instances the deadlines are not achievable.

  Person Responsible: Individual contract authorized agents; John Calabrese
  Implementation Date: On-going

CHAPTER 4: DEDICATED REVENUE

9. Some correctional facilities are diverting revenue from the General Fund to their dedicated accounts.

RECOMMENDATION:

- The department should develop a department-wide policy that will serve as a guideline for depositing facility revenue by fund.

- The department should investigate and cancel incorrect deposits to the General Fund.

RESPONSE:

- The deposit of miscellaneous revenue will be reviewed and analyzed to determine which revenue or receipts may be retained under the Department of Corrections' authority and which should be returned to the general fund. A department-wide policy to serve as a guideline for the deposit of facility revenue by fund will then be developed to clarify the deposit of revenue or receipts. Deposits made from July 1, 1993 on will be reviewed in light of these guidelines and corrections to these deposits made where applicable.

  Person Responsible: Shirley Flekke
  Implementation Date: March 1, 1994

CHAPTER 5: PAYROLL

10. MCF-Lino Lakes incurs additional costs due to a high incidence of Industries overtime hours.

RECOMMENDATION:

- The department should examine the overtime at MCF-Lino Lakes and investigate opportunities to bring the overtime hours down to a more reasonable level.

RESPONSE:

- Industries' overtime hours at Lino Lakes are approved in advance by management based on production backlog and to meet delivery dates and schedules. Overtime hours are controlled and approved by management on a daily basis. Also, the inmate population dropped during this period which impacts available workers to meet delivery dates. Overtime will be reduced in the future at Lino Lakes by expanding production capabilities at MCF-Stillwater and MCF-Faribault in the redesign of the Industries Program.

  Person Responsible: Fred LaFleur
  Implementation Date: November 30, 1993