DEPARTMENT OF CORRECTIONS

SELECTED SCOPE FINANCIAL AUDIT

FOR THE YEAR ENDED JUNE 30, 1993

SEPTEMBER 1994

Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

94-46

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

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

DEPARTMENT OF CORRECTIONS

SELECTED SCOPE FINANCIAL AUDIT FOR THE YEAR ENDED JUNE 30, 1993

Public Release Date: September 9, 1994 No. 94-46

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. The primary purpose of the department is public protection. Frank W. Wood was appointed commissioner effective September 9, 1993.

SELECTED AUDIT AREAS

- *Appropriation Control - Correctional Facilities*

The Department of Corrections complied with fiscal year 1993 appropriation laws when distributing General Fund appropriations to the correctional facilities. However, the level of General Fund support of the correctional industries program has been consistently higher than budgeted. The department also made a loan from the General Fund without proper approval and did not repay the interest due.

- *Minnesota Correctional Industries Program*

The Minnesota Correctional Industries (MCI) Program has reported losses every year since inception. Financial operation improvements would achieve greater cost efficiency and reduce state subsidies. Controls over raw material purchases also need strengthening.

- *Sex Offender Program Conflict of Interest*

Our review focused on a potential conflict of interest for employees of the sex offender program. We did not review the financial activity of the sex offender program as a part of this audit. Conflicts of interest occurred and the department resolved them in some instances. However, other situations require further action.

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

FINANCIAL AUDIT DIVISION

STATE OF MINNESOTA
OFFICE OF THE LEGISLATIVE AUDITOR
CENTENNIAL BUILDING, ST. PAUL, MN 55155 • 612/296-4708
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 completed a financial related audit of selected programs of the Department of Corrections and its activities at some Minnesota correctional facilities as of and for the year ended June 30, 1993. We emphasize that this has not been a complete audit of all programs with the Department of Corrections, and that our audit was limited to only that portion of the financial operations as outlined below and as further discussed in the Introduction.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we consider the internal control structure in order to plan our audit of the selected programs, and that we perform tests of the department's compliance with certain material provisions of laws, regulations, contracts and grants. However, our objective was not to provide an opinion on the internal control structure or on overall compliance with finance-related legal provisions.

For purposes of this report, we have classified the significant internal control structure policies and procedures into the following categories:

- institution appropriation and allotments, and

- industries cost accounting system and purchasing cycles.

For 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. We also addressed a potential conflict of interest on the sex offender program staff.

Our testing was done at the central office, as discussed in Chapters 2, 3, and 4. Testing was also done at MCF-Lino Lakes, MCF-Oak Park Heights, MCF-St. Cloud, and MCF-Stillwater.

Management Responsibilities

Management of the Department of Corrections is responsible for establishing and maintaining the 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 Departments of Corrections and 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 internal control 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. We also considered whether the Department of Correction'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.

Conclusions

The department complied with fiscal year 1993 appropriation laws when distributing General Fund appropriations to the facilities. However, the level of General Fund support of the correctional industries program has been consistently higher than budgeted. The department also made a loan from the General Fund without proper approval and did not repay the interest due.

The Minnesota Correctional Industries (MCI) Program has reported losses every year since inception. Financial operation improvements would achieve greater cost efficiency and reduce state subsidies. Controls over raw material purchases also need strengthening.

Conflicts of interest occurred in the sex offender program. The department resolved the conflicts in some instances, although other situations that require further action still exist.

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 August 23, 1994.

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 September 9, 1994.

We thank the Department of Corrections staff for their cooperation during this audit.

James R. Nobles
Legislative Auditor

John Asmussen, CPA
Deputy Legislative Auditor

End of Fieldwork: June 17, 1994

Report Signed On: August 31, 1994

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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
Pat Ryan	Auditor
Mark Mathison	Auditor

Exit Conference

The issues in this report were discussed with the following staff of the Department of Corrections on August 23, 1994:

Frank W. Wood	Commissioner
James Bruton	Deputy Commissioner, Institution Services
Richard Mulcrone	Deputy Commissioner, Community Services
Lurline Baker-Kent	Assistant Commissioner, Management
Daniel O'Brien	Assistant to the Commissioner
Shirley Flekke	Financial Services Director
Fred W. Holbeck	CEO, MINNCOR
Paul Anderson	Accounting Director, MINNCOR
Pam Mindt	Director, Sex Offender/Chemical Dependency Program
Daniel Johnson	Executive Budget Officer, Department of Finance

Introduction

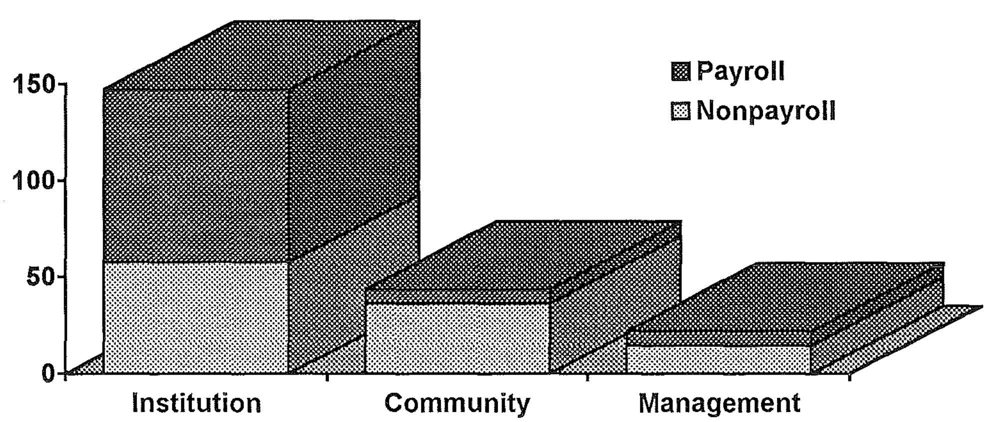
The Department of Corrections was established to consolidate state correctional functions under one agency. The primary purpose of the department is public protection. The department is a service and regulatory agency which provides correctional facilities and community programs for adjudicated delinquent and adult felons. Commissioner Frank Wood provided the general management of the department since his appointment, effective September 9, 1993.

The department is organized into three main divisions:

- The Institution Services Division operates the ten correctional facilities with a population of over 4,600. Support services include health care, education, correctional industry coordination, and inmate classification.
- The Community Services Division administers the 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.
- The Management Services Division provides overall administrative, planning, policy development, training, and staff support service functions for the department. This division includes activities involving personnel, information and analysis, fiscal services, office management, hearings and appeals, and victim services.

Figure 1-1 shows the breakdown of department expenditures for three divisions. The payroll costs for state employee salaries are shown separately for each division. Total departmental expenditures for fiscal year 1993 were $213,384,838.

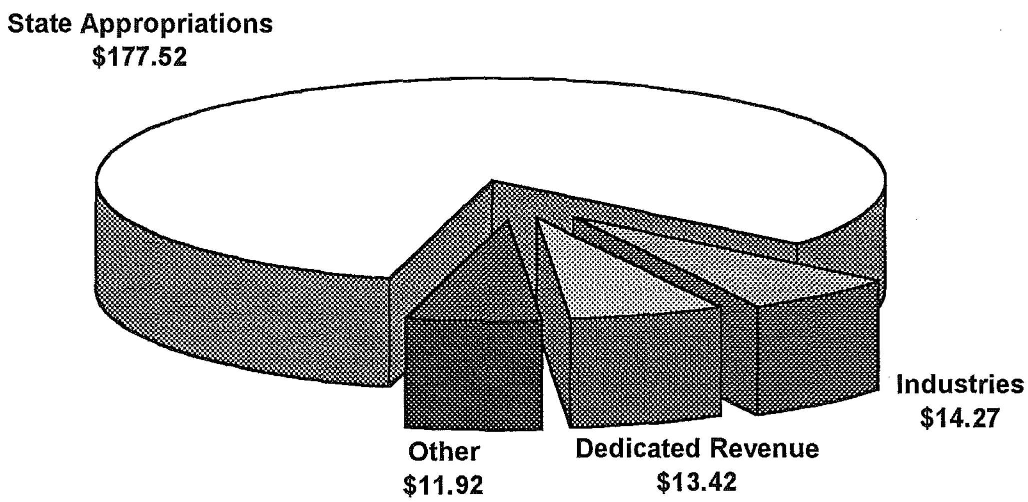
Figure 1-1: Department Expenditures
FY 93 ($ Millions)



Source: Statewide Accounting System.

Figure 1-2 shows the percentage breakdown of the sources of department financing, totaling $217,144,114.

Figure 1-2: Financing Sources
FY 93 ($ Millions)



Source: Statewide Accounting System.

Chapter 2. Appropriation Control - Correctional Facilities

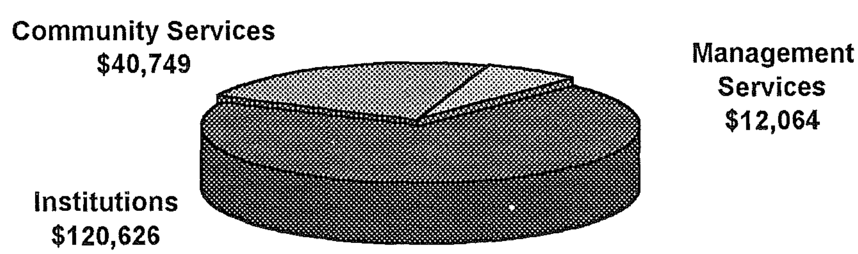
Chapter Conclusions

The Department of Corrections complied with fiscal year 1993 appropriation laws when distributing General Fund appropriations to the correctional facilities. However, the level of General Fund support of the correctional industries program has been consistently higher than budgeted. The department also made a loan from the General Fund without proper approval and did not repay the interest due.

General Fund Appropriation Control

The department funds its operations primarily from General Fund appropriations. The department received General Fund appropriations totaling $173,438,889 for fiscal year 1993. The 1991 appropriation law allocated the appropriation into three functional areas: correctional institutions, community services, and management services. The department allotted the General Fund appropriation to these areas as shown in Figure 2-1.

Figure 2-1: General Fund Appropriations FY 93 ($ Thousands)



Source: State of Minnesota Appropriation Laws.

The appropriation laws allow the department to allocate the correctional facility portion of the General Fund appropriation as management determines necessary. The law also allows the commissioner to transfer funds among the three functional areas upon advance approval of the commissioner of finance.

The appropriation for correctional institutions provides funding for the operation of ten correctional facilities and the department-wide coordination and supervision of institution health care, education, industry, and other support services. The facilities serve to protect the community by incarceration of offenders and to provide vocational and academic opportunities for inmates to help them in their return to the community.

Table 2-1 shows the department's original allocation to facilities and net transfer activity of the fiscal year 1993 General Fund appropriation. The Thistledew Camp receives only a small share of the appropriation. The facility operates on a per diem basis and receives funding from the counties and school districts of residence.

Table 2-1: Facility Allocation Activity
FY 93

Facility	Original Allocation	Net Transfers In/(Out)	Final Allocation
Stillwater	$28,127,899	$501,730	$28,629,629
St. Cloud	18,977,900	339,122	19,317,022
Oak Park Heights	15,643,431	(95,937)	15,547,494
Faribault	14,417,926	(871,798)	13,546,128
Lino Lakes	12,345,385	24,065	12,369,450
Red Wing	6,627,063	108,845	6,735,908
Willow River	6,215,564	43,492	6,259,056
Shakopee	5,742,437	210,259	5,952,696
Sauk Centre	4,865,717	3,190	4,865,717
Thistledew	18,000	0	18,000
Totals	$112,981,322	$262,968	$113,244,290

Note: Source of net amount transferred into facilities was from Community Services, which received approximately $7,644,678 of the original facilities allocation.

Source: Statewide Accounting System.

Budgeting Process

The department begins its biennial budget process at each correctional facility. The facilities are responsible for developing detailed budget plans on a biennial basis. Facilities present their budgets to the executive management team that consists of the commissioner, deputy commissioners, and assistant commissioners. The budget presentation compares current spending levels to proposed spending for the next biennium. Each facility must also justify any increases and cite how the budget meets departmental goals and objectives. The executive management team may accept or modify the facility budgets. The department submits the overall budget to the Department of Finance and ultimately the Legislature for changes and final approval.

Corrections central office finalizes the allotment amounts for each of the facilities after the appropriations become law. There are four major expenditure categories that comprise the allotments to each facility. Facilities are responsible for allocating the amounts to specific accounts within the major expense categories. The amounts allotted to these categories are shown in Table 2-2.

Table 2-2: Facility Expense Allocation
FY 93

Salaries	$ 87,501,910
Current Expense	22,677,000
Repair and Replacements	1,662,000
Special Equipment	706,000
Total	$112,546,910

Source: Department of Corrections Budget Documents.

We analyzed and reviewed the appropriation and budget control for the facilities. We reviewed each facility's adherence to budgeted categories as presented in the fiscal year 1992 to 1993 biennial budget documents. We analyzed and tested facility encumbrances, expenditures, appropriation transfers, and expenditure transfers. We found the department complied with applicable laws and state policies for encumbering, expending, and transferring General Fund appropriations. However, the department made loans from General Fund appropriations to the industry program of one facility without following established procedures. Additionally, we noted that General Fund support of the prison industry program has been consistently greater than amounts budgeted by the facilities, and the amount of the subsidy has steadily increased.

1. The department did not follow established procedures for loaning General Fund appropriations to other funds.

The department failed to follow established guidelines for loaning General Fund appropriations to other funds. We found that MCF-Lino Lakes loaned General Fund appropriations to the Minnesota Correctional Industries (MCI) Fund.

Minn. Stat. Section 241.27, Subd. 4 , allows Corrections to borrow money for the MCI Fund. The statute requires the commissioner of corrections to certify to the commissioner of finance and the state treasurer a specified sum of money to meet the cash needs of the MCI Fund. The agreement must also include a date of repayment and the rate of interest due. The department did not follow these statutory provisions.

The MCF-Lino Lakes industries program experienced cash flow problems in fiscal year 1993 largely due to a major job it was completing. This job required the purchase of a large amount of materials, thereby depleting cash reserves. The department transferred $120,000 from the General Fund appropriation to meet inmate payroll, using an expense transfer transaction. The department repaid the loan in fiscal year 1993 by reversing the expense transfer. However, the department did not pay interest and did not seek approval from the commissioner of finance as required by statute.

Although the department made loans for allowable activities, the department did not follow the required statutory provisions. As a result, the department circumvented controls that would ensure an independent review of the process.

Department of Corrections

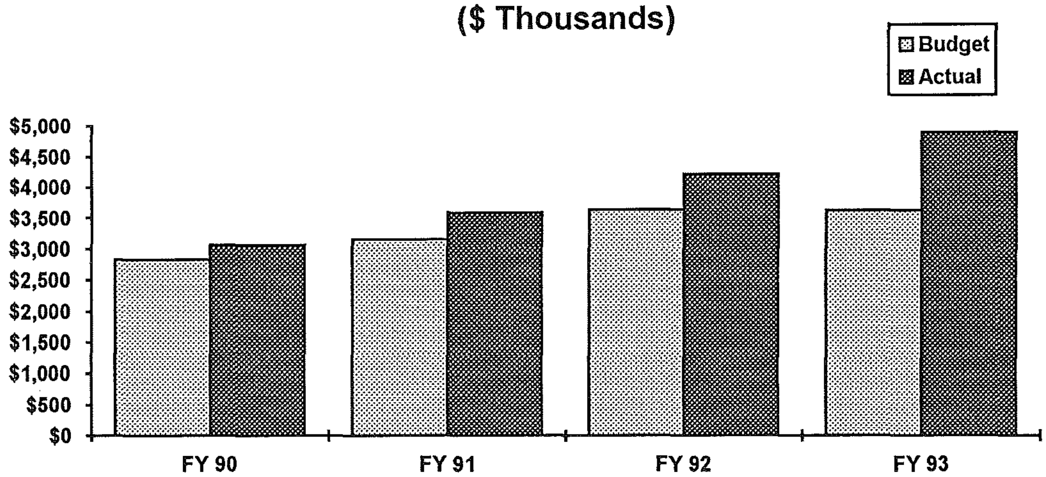
Recommendation

- *The department should follow statutory requirements when providing General Fund loans to other funds.*

General Fund Support of Correctional Industries

Six of the ten correctional facilities operate an industries program. Each facility allots a portion of its General Fund appropriation to provide an operating grant to the program. The operating grant is used by the facilities to pay for staff salaries, inmate wages, and supplies. Facilities include the industries operating grant as a line item in the biennial budget. We reviewed these budgets for fiscal years 1990 through 1993 and analyzed the budgeted amount of the operating grant versus the actual amount expended. The department has consistently exceeded the budgeted amount of the operating grant. Also, the amount of the General Fund operating grant has increased significantly from about $3 million in fiscal year 1990 to $4.9 million in fiscal year 1993. In fiscal year 1993, the actual amount of the operating grant exceeded the budgeted amount by $1,274,055. Figure 2-2 shows the General Fund budgeted and actual expenditures for fiscal years 1990 through 1993.

Figure 2-2: General Fund Expenditures ($ Thousands)



Source: Department of Correction Budget Documents and the Statewide Accounting System.

The central office has delegated the responsibility of allocating facility General Fund appropriations to facility management. We believe the facilities need to report material departures from budgeted levels to the central office. This would increase the overall departmental control over General Fund appropriation allocations. The department needs to review the budgeting process and determine if the budgets as presented in biennial budget documents portray accurately the intended allocation and expenditures of General Fund appropriations. A detailed comparison of budgeted versus actual expenditures for each fiscal year may also provide department management a useful tool for monitoring facility spending levels. Chapter 3, Figure 3-2 depicts Industries operating profits and losses occurring since fiscal year 1989.

Chapter 3: Minnesota Correctional Industries Program

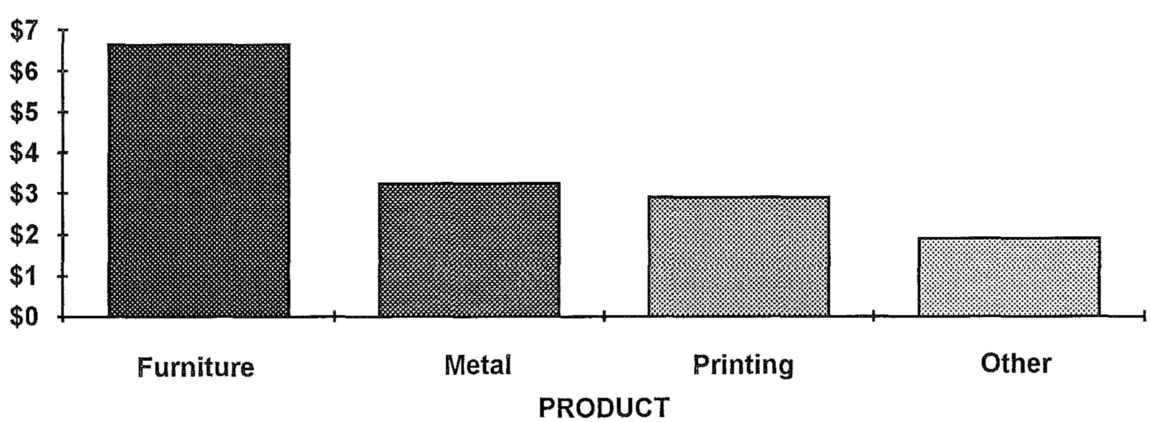
Chapter Conclusions

The Minnesota Correctional Industries (MCI) Program has reported losses every year since inception. Financial operation improvements would achieve greater cost efficiency and reduce state subsidies. Controls over raw material purchases also need strengthening.

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, enabling 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. Figure 3-1 identifies the various industry product lines and revenue generated. Our review focused on the job cost structure and purchasing procedures at three facilities: Lino Lakes, Oak Park Heights and St. Cloud.

Figure 3-1: Industry Product Line Revenue FY 93 (Millions)

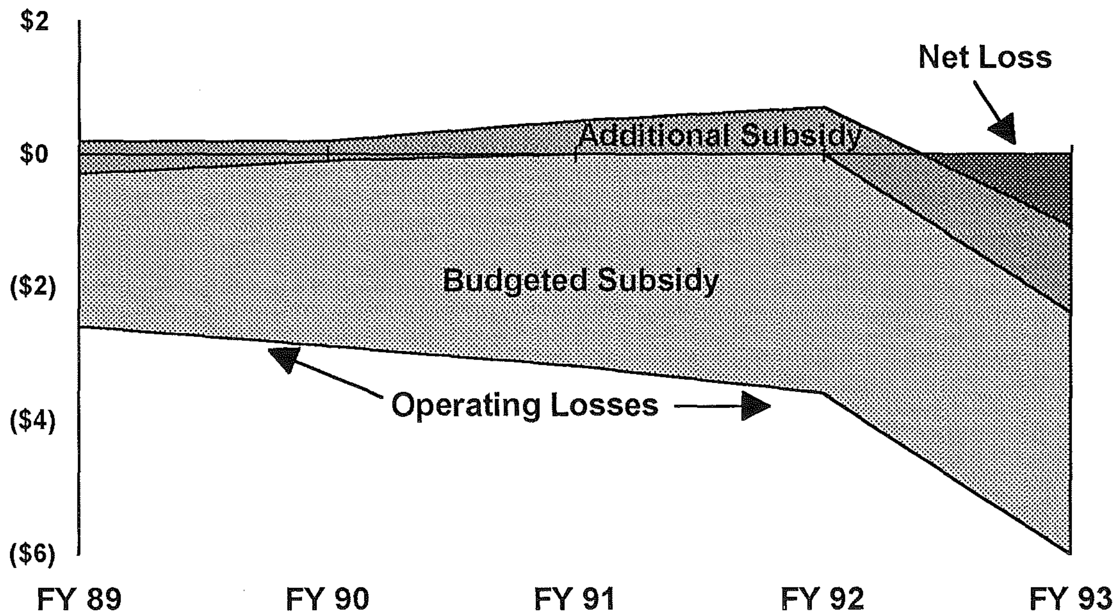


Source: MN Correctional Industries Financial Statements.

As depicted in Figure 3-2, losses have occurred in the programs every year since inception. General Fund appropriations subsidize these losses. In addition, the state subsidy also funded costs associated with the "burden rate." Additional costs identified as necessary for operating a correctional facility rather than a business comprise the burden rate. A noncorrectional entity operating a similar industries program would not incur these costs for inmate incarceration.

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. As a result, the level of General Fund support has been consistently higher than budgeted and the level of the subsidy increased significantly over the last several years (Figure 2-2). We believe the department could increase the profitability of the program by improving controls over costs charged to various jobs. These improvements could empower management with the tools necessary to make timely decisions needed to achieve greater cost efficiency and thereby reduce state subsidies.

Figure 3-2: Industries Operating Losses ($ Millions)



Note: Subsidy is from the General Fund.

Source: MN Correctional Industries Financial Statements.

2. The department has not established a uniform accounting system to control costs charged to industries jobs by the various facilities.

The department does not require facilities to account for costs charged to industries jobs by product and in a uniform manner. Instead, the department allowed each facility to establish its own design of the accounting system. This practice resulted in varying levels of control at the facilities, contributing to the losses incurred every year since inception (Figure 3-2).

For example, some facilities do not maintain product costs in sufficient detail to properly analyze profit margins. Some facilities charge costs to a specific job, while others charge costs to a specific product or cost center. Any of these three methods would be acceptable if the ability to analyze costs for a specific product existed. Some facilities, however, do not use cost centers to isolate costs by product. Without this level of detail, the facilities cannot analyze which products are unprofitable. If losses continue to occur as in the past, the industries program will need additional subsidies from the state.

The department also does not require facilities to uniformly account for costs charged to industry jobs. Some facilities include costs for depreciation, shipping and other items in product costs while other facilities charge these costs to the burden rate. Without a uniform system, the department cannot compare figures between facilities. Comparisons would be beneficial in analyzing administrative and other costs for inefficiencies.

A uniform accounting system that isolates individual product costs enables the department to manage the facilities' use of allocated funds. The department must balance the use of the state subsidy to provide work for the inmates against the dilemma of competing with the private sector. To meet this challenge, an adequate accounting system is essential to establish targets for facilities to compare results. Facilities then could review costing variances and make adjustments on a periodic basis.

Recommendation

- *The department should design a system of control that accounts for costs by individual product on a uniform basis at each facility.*

3. Controls over raw material purchases need improvement.

Three facilities did not formalize written contracts for the purchase of raw materials as required by state policy. These purchases totaled 79 percent of the expenditures required to be under contract (Table 3-1). Without written contracts, facilities expose themselves to unnecessary risks that can result in losses to the department.

Table 3-1: Disbursements Analysis
Fiscal Year 1993

Facility	Total disbursements that required written contracts	Disbursements controlled by written contracts	Amounts disbursed without written contracts	Percent without written contracts
Lino Lakes	$2,577453	$578,048	$1,999,405	78%
Oak Park Heights	1,171,800	277,199	894,601	76%
St. Cloud	338,326	16,349	321,977	95%
Totals	$4,087,579	$871,596	$3,215,983	79%

Source: Statewide Accounting System.

Department of Corrections

The Department of Administration established policies and guidelines for agencies to follow for purchasing materials, including a spending limit for agencies to purchase materials without advance approval. Agencies must submit purchases over the annual spending limit to Administration for proper handling unless a state contract already exists. If a contract already exists, an agency can purchase materials without Administration's advance approval regardless of the amount. The three facilities did not establish a written contract for purchases over the spending limit and did not obtain advance approval. The spending limit for raw material purchases is $15,000.

Facility staff entered into verbal agreements with some of the suppliers. However, verbal agreements do not allow the business office to properly monitor contract services. The three facilities also purchased some materials under a sole source designation, which essentially exempts the agency from some bidding requirements. The sole source designation, however, does not exempt an agency from establishing a written contract.

Written contracts offer several advantages to facilities purchasing materials. Suppliers typically offer discounts to entice potential customers to commit in writing to purchase their product. Noncompliance with local purchasing authority guidelines could result in ineffective and inefficient purchasing practices. Adherence to purchasing requirements would ensure that facilities obtain the lowest price with the quality desired, and that potential conflicts of interest are avoided.

Recommendation

- *The department should improve controls over raw material purchases by establishing contracts as required.*

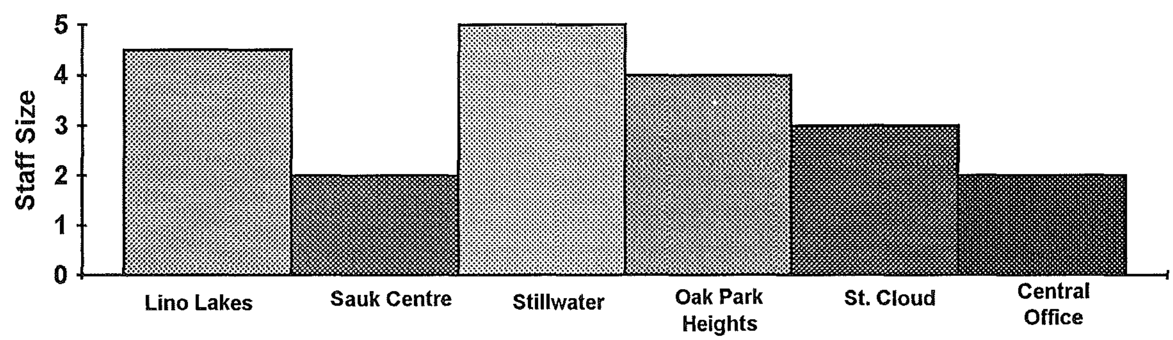
Chapter 4: Sex Offender Program Conflict of Interest

Chapter Conclusions

Our review focused on a potential conflict of interest for employees of the sex offender program. We did not review the financial activity of the sex offender program as a part of this audit. Conflicts of interest occurred and the department resolved them in some instances. However, other situations require further action.

The central office of the Department of Corrections administers the sex offender program. Central office allocates funds to five correctional facilities to provide services to inmates within the correctional facility system. Services provided to inmates would include counseling in both group and individual therapy sessions. Figure 4-1 depicts the facilities allocated funds and the staffing levels assigned.

Figure 4-1: Staffing Levels
FY 1993

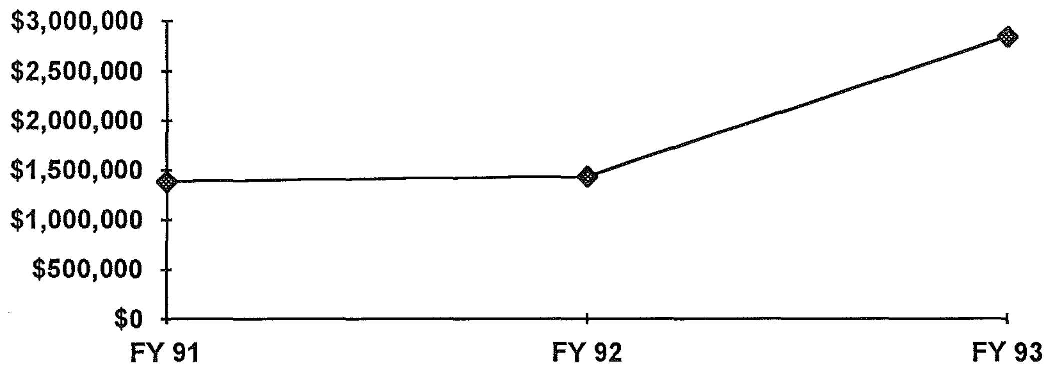


Source: MN Department of Corrections.

Central office also performs a number of critical duties, such as awarding grants each year to community based sexual assault centers outside the correctional facility system. The funding provides counseling services to both victims and offenders in both group and individual therapy sessions.

Recent legislation has spurred growth of the program as shown in Figure 4-2. This growth has created a need for new positions both within and outside the correctional facility system. As a result, some employees of the department also hold positions outside the correctional facility at the community based centers. Such a system allows for potential conflicts of interest.

Figure 4-2: Sex Offender Program Funding



Source: MN Department of Corrections.

We obtained information that indicated potential conflicts existed when employees held positions both within and outside the department. This chapter is limited to issues of potential conflicts of sex offender program employees. We did not conduct a financial audit of the sex offender program. In July 1994, however, our office published a program evaluation report on the program. Our investigation discussed in this chapter discloses conflicts for three employees of the program.

4. The department did not adequately resolve potential conflicts for some employees of the sex offender program.

Conflicts existed for three employees of the sex offender program. The department resolved two of the conflicts recently, but has not acted on the third situation. Although Corrections remedied two situations, the action was not timely. All three employees worked as therapists for a grantee that receives funding from the department. The grantee provided a community based sex offender program funded with grants or contracts from the department. When hiring these three employees, the department was aware that the new employees would continue working at their other jobs. However, at that time, the department did not fully recognize and resolve potential conflicts of interest presented by dual employment. It later identified some problems with the arrangements and assigned new duties to some employees and asked one employee to discontinue the outside employment relationship.

Minn. Stat. Section 43A.38, Subd. 5, requires the department to identify and act promptly on potential conflicts. Without proper intervention, the department runs a higher risk of potential misconduct by its employees. Employees may benefit by referring clients to the outside employer where the employee is a contract counselor who receives a percentage of the service fee. Employees could also benefit by securing a job with the outside employer by authorizing a grant under the condition of employment. Employees could even abuse work hours by receiving pay from both employers for the same hours in a day. Although we did not uncover any instances of employee abuse, the risk is still apparent when conflicts exist. These risks may still exist for some employees in the various sex offender programs at the central office and facilities.

Recommendation

- *The department should improve procedures to identify potential conflicts of interest and act to eliminate any problems.*

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Minnesota
Department of
Corrections

Office of the Commissioner

August 30, 1994

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 audit of selected programs of the Department of Corrections at some Minnesota correctional facilities as of and for the year ended June 30, 1993. We understand that this was not a complete audit of all programs and that the audit was limited to only a portion of our financial operations. Our response to your audit report and recommendations is attached as requested.

Your audit reports are important to us and serve as helpful tools and guides in the management of the department and in safeguarding of the state assets under our stewardship. The audits also help the department to meet the professional accreditation standards of the American Correctional Association.

Normally, the department responds only to the recommendations, but because of the format and content, we felt it necessary also to respond to certain statements included in the report.

If you have any questions or comments about our response, please feel free to call me or members of my staff.

Sincerely,

Frank W. Wood
Commissioner

FWW/SF:dl
Attachment

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MINNESOTA DEPARTMENT OF CORRECTIONS
RESPONSE TO LEGISLATIVE AUDIT
FOR THE FISCAL YEAR ENDING JUNE 30, 1993

INTRODUCTION:

The department's mission "...is to ensure that sanctions and services of the criminal justice system are designed and delivered to create a safer Minnesota".

During F.Y. 1993, the adult inmate population increased by over ten percent or 400 additional beds in the correctional facilities. Also, during this period, the number of offenders on probation and supervised release increased by over six percent or 600 offenders. At the same time, the department's general fund budget increased over ten percent to over $175 million.

Under these circumstances, the department has been given broad authority by the legislature to manage its resources prudently in order to cope with the burgeoning offender populations.

GENERAL FUND APPROPRIATION CONTROL: While there was no recommendation regarding the General Fund support of the prison industry program being consistently greater than amounts budgeted by the facilities, the department would like to respond to the Auditor's comments.

> Response: If one compares the F.Y. 1992-1993 biennial budget document with expenditures for F.Y. 1993 at closing, there is an increase at two facilities: MCF-Faribault and MCF-Lino Lakes. Both facilities were experiencing rapid expansion during this period and both received increased appropriations in F.Y. 1993 with the increases (over $5.0 million for MCF-Faribault and over $4.5 million for MCF-Lino Lakes) listed as "decision" items in the budget document. Both requests included funding for the industry program. For example, over $650,000 of the increase for MCF-Lino Lakes was for the industry program. However, both were included in the department's budget request in the F.Y. 1992-1993 budget and expenditures differed only slightly from the budgeted amount.

Recommendation: The department should follow statutory requirements when providing General Fund loans to other funds.

> Response: The transaction that triggered this recommendation was an internal loan that was made from Corrections' General Fund appropriations at MCF-Lino Lakes to the Industry Program at that same facility. The funding was necessary to allow the purchase of raw materials to ensure timely completion of a large production order. The internal loan was for $120,000, was property accounted for in statewide accounting and internal financial documents, and was repaid within fiscal year 1993.

The last external loan from the state treasury under M.S. 241.27, subd. 4, was approved by the Commissioner of Finance on May 21, 1980, for $250,000 for Stillwater Industries. The loan was needed for current demands in the Metal Products division of Stillwater Industries and was repaid to the state treasury on July 7, 1980, with interest.

The department is of the opinion that it has authority under M.S. 241.01, subd. 3a(c), to "...administer the money and property of the department...," which authority includes legislative appropriations to the commissioner of corrections resulting from the biennial budget process. The department distinguishes between the use of appropriated funds and internal loans and the state treasury and external loans.

In discussion at the exit conference, it was suggested to the department that an Attorney General's opinion would be needed to clarify the department's authority with respect to appropriated funds and internal loans. The department will consider seeking an Attorney General's opinion.

Person Responsible: Shirley Flekke
Projected Completion Date: December 31, 1994

GENERAL FUND SUPPORT OF CORRECTIONAL INDUSTRIES: While there was no recommendation regarding the general fund support of correctional industries, the department would like to respond to the Auditor's comments regarding the growth in the General Fund operating grant for industries.

Response: The operatng grant for industries has grown during the period of years from 1989 to 1993 as expanding or new facilities open and add beds. The operating grant has increased at MCF-Lino Lakes, MCF-Shakopee and MCF-Faribault, all of which have expanded and are continuing to expand in the current biennium. Given this expansion, the operating grant will continue to increase as a means of keeping offenders busy in the correctional facilities in order to reduce prison idleness and lessen the threat of violence.

MINNESOTA CORRECTIONAL INDUSTRIES PROGRAM: While there was no recommendation under this general heading, the department would like to respond to comments concerning the mission statement for industries and its operation.

Response: The mission in reference to the industry work program must be restated. A mission statement that better reflects the operations of the industry program objectives will be developed. Although statements have been made that the objective of the program is to be self-sufficient, it is in conflict with the employment of the maximum number of inmates so as to reduce idleness in the prison and potential violence while teaching inmates valuable work habits and skills. The objective of the department will continue to be to operate the program as effectively and efficiently as possible. With the combination of the seven industry job sites under a common management system called MINNCOR, significant change for efficiency will take place.

Recommendation: The department should design a system of control that accounts for costs by individual product on a uniform basis at each facility.

Response: The department is in the process of combining the management, sales, marketing, designing, purchasing and accounting of the correctional industries program under MINNCOR. One objective of MINNCOR is to establish a uniform accounting system. In the coming months, MINNCOR will be getting a wide area network computer system. With this wide area network system, MINNCOR will be able to send and receive information through an accounting software package to and from production facilities.

Formerly, the industry operation had been decentralized and facilities had the option of using a cost accounting system. Many did not take that option. However, with the centralization of the industry operations and financial services, a uniform cost accounting system can be accomplished. The department will be working on this goal after a period of transition for centralization.

Persons Responsible: Fred Holbeck, CEO, MINNCOR
Paul Anderson, Finance Director, MINNCOR
Projected Completion Date: July 1, 1995

Recommendation: The department should improve controls over raw material purchases by establishing contracts as required.

Response: In the 1987 Legislative Session, the department received authority to do its own purchasing for materials and commodities used for resale. Subsequently, the department's purchasing policies were revised to include the same procedures that the Department of Administration would use for their purchasing. For example, the department has the authority to purchase materials and commodities used for resale costing in excess of $15,000, but must follow the sealed bid process.

A system is being developed which will clarify when, where and why contracts are required. When MINNCOR defines requirements for contracts, a meeting with the Department of Administration will be held to review all the purchasing requirements. In some of the purchasing, large fluctuations can occur on a daily basis, such as the purchase of cedar lumber and cardboard boxes. If the department locks into contracts for materials with rapidly changing prices, the department cannot be assured of obtaining the best prices. If it is determined in meetings with the Department of Administration that a contract will not work for certain materials, MINNCOR needs to document alternatives to contracts that are in compliance with state policies. Now that industry's purchase is centralized and buyers are assigned to product lines, MINNCOR will have greater control over purchasing. In addition, MINNCOR will also be in a better position to determine whether a contract would be beneficial.

Persons Responsible: Fred Holbeck, CEO, MINNCOR
Paul Anderson, Finance Director, MINNCOR
Projected Completion Date: July 1, 1995

Recommendation: The department should improve procedures to identify potential conflicts of interest and act to eliminate any problems.

Response: The department has a policy in place which addresses these concerns and a copy of this policy has been given to the Legislative Auditor.

At the time all three individuals were hired by the department, the community-based program did not receive any funds from the department for the provision of sex offender specific services. The department entered into a contract with this community-based program in mid-1992 to provide aftercare services to inmates exiting prison. The professional providing these services for the community-based program is not an employee of the department. The decision to grant funds to the community-based program was done by a formal request for proposal process, and the individuals working for both the department and the community-based program were not involved in the funding process. Additionally, this was the only metro community-based program that submitted a proposal to work with this type of population.

At the time of the interview, the supervisors of these individuals did inquire whether the three individuals would continue working at the community-based program. All three individuals talked extensively with their supervisor about their outside employment. In accordance with department policy, these employees put their request in writing. In an effort to ensure there was not conflict of interest, the Board of Social Work, the Board of Psychology, and an assistant to the commissioner who is an attorney were consulted to determine whether a conflict existed. All outside and legal sources said no conflict existed.

At this time there is only one individual who remains employed by both agencies. This individual provides plethysmography evaluations and is working with a group dealing with sex offenders who are in denial. Due to the unique qualifications of this employee, it is in the department's best interest to continue his employment and continue to document that there is no real conflict of interest. Documentation will clearly show that the employee does not refer clients to the community-based program and that he does not receive any department grant funds directly. This case will be reviewed and documented quarterly to ensure no potential conflict of interest.

Person Responsible: Pam Mindt, Director, Sex Offender/
Chemical Dependency Program
Projected Completion Date: Completed