

Ombudsman for Corrections

Financial Audit

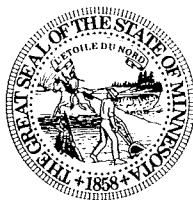
For the Period July 1, 1995, through June 30, 1997

September 1998

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**Financial Audit Division
Office of the Legislative Auditor
State of Minnesota**

98-49



STATE OF MINNESOTA
OFFICE OF THE LEGISLATIVE AUDITOR
JAMES R. NOBLES, LEGISLATIVE AUDITOR

Senator Deanna Wiener, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Ms. Patricia Seleen, Ombudsman
Ombudsman for Corrections

We have audited the Ombudsman for Corrections for the period July 1, 1995, through June 30, 1997, as further explained in Chapter 1. Our audit scope included payroll, purchased services, and rent. The following Summary highlights the audit objectives and conclusions. We discuss these areas more fully in the individual chapters of the report.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, as issued by the Comptroller General of the United States. These standards require that we obtain an understanding of management controls relevant to the audit. The standards also require that we design the audit to provide reasonable assurance that the Ombudsman for Corrections complied with the provisions of laws, regulations, and contracts.

This report is intended for the information of the Legislative Audit Commission and the management of the Ombudsman for Corrections. This restriction is not intended to limit the distribution of this report, which was released as a public document on September 4, 1998.

Handwritten signature of James R. Nobles in cursive.

James R. Nobles
Legislative Auditor

Handwritten signature of Claudia J. Gudvangen in cursive.

Claudia J. Gudvangen
Deputy Legislative Auditor

End of Fieldwork: July 7, 1998

Report Signed On: September 1, 1998

SUMMARY

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Ombudsman for Corrections

Financial Audit

For the Period July 1, 1995, through June 30, 1997

Public Release Date: September 4, 1998

No. 98-49

Background

The Ombudsman for Corrections is an independent agency created in 1972. The agency operates under the authority of Minn. Stat. Sections 241.41 through 241.45. The agency's sole purpose is to investigate complaints lodged by inmates, staff, and other interested parties against the Department of Corrections, the Board of Pardons, and any regional or local correctional facility licensed or inspected by the commissioner of the Department of Corrections, whether public or private. Patricia Seleen is the current Ombudsman for Corrections.

Our audit scope included a review of internal controls over payroll, rent, and purchased services for the period July 1, 1995, through June 30, 1997. We also designed our audit to provide reasonable assurance that the agency complied with applicable legal provisions governing each area.

Conclusions

We concluded that the agency designed and implemented internal controls to provide reasonable assurance that payroll, purchased services, and rent were properly authorized, documented, and accurately recorded in the state's accounting system. For the items tested, the agency processed expenditures in compliance with finance-related legal provisions. However, we found that the agency needs to review key biweekly SEMA4 payroll processing reports and restrict access to its personnel and payroll system and data.

The Ombudsman for Corrections agreed with the audit report finding and recommendation. They began to formally review SEMA4 reports and restricted staff security clearances.

Ombudsman for Corrections

Table of Contents

	Page
Chapter 1. Introduction	1
Chapter 2. Financial Activities	2
Status of Prior Audit Issues	5
Ombudsman for Corrections Response	6

Audit Participation

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

Claudia Gudvangen, CPA	Deputy Legislative Auditor
Brad White, CPA, CISA	Audit Manager
Fubara Dapper, CPA	Auditor-in-Charge

Exit Conference

We discussed the result of this audit with the following representatives of the Ombudsman for Corrections at the exit conference held on August 27, 1998:

Patricia Seleen	Ombudsman for Corrections
Laura Ochs	Executive I

Ombudsman for Corrections

Chapter 1. Introduction

The Ombudsman for Corrections is an independent agency created in 1972. The agency operates under the authority of Minn. Stat. Sections 241.41 through 241.45. The agency's sole purpose is to investigate complaints lodged by inmates, staff, and other interested parties against the Department of Corrections, the Board of Pardons, and any regional or local correctional facility licensed or inspected by the commissioner of the Department of Corrections, whether public or private. Patricia Seleen is the current Ombudsman for Corrections.

The Ombudsman for Corrections' operating costs are funded from General Fund appropriations. It received state appropriations of \$530,000 for fiscal year 1996 and \$530,000 for fiscal year 1997. The agency also received a supplemental appropriation of \$225,000 in 1996 to finance the settlement of litigation against the agency. Appropriation laws allow the agency to carry forward funds between fiscal years in the biennium. General Fund appropriations and expenditures for the Ombudsman for Corrections for fiscal year 1996 and 1997 are shown in Table 1-1.

Table 1-1
Ombudsman for Corrections
Sources and Uses of Funds
Fiscal Years 1996 and 1997

Sources:	<u>1996</u>	<u>1997</u>
Appropriations	\$530,000	\$530,000
Supplemental Appropriations (1)	225,000	0
Salary Supplement	12,140	22,038
Balance Forward In (2)	0	(6,592)
Available Resources	<u>\$767,140</u>	<u>\$545,446</u>
Uses:		
Payroll	\$577,272	\$444,076
Purchased Services	134,612	8,156
Rent	23,031	23,031
Other Expenditures	38,817	53,678
Total Uses	<u>\$773,732</u>	<u>\$528,942</u>
Balance Forward Out (2)	(6,592)	0
Appropriation Cancellation	0	16,504
Use of Resources	<u>\$767,140</u>	<u>\$545,446</u>

(1) The agency received a supplemental appropriation to settle a lawsuit. Payroll costs of \$175,287 and legal services of \$90,484 were paid in fiscal year 1996 as a result of this settlement.

(2) The 1996 Laws of Minnesota (Chap. 371-S.F. No. 2874) specifically allowed the agency to use up to \$15,000 of its fiscal year 1997 appropriation to assist in funding the lawsuit settlement.

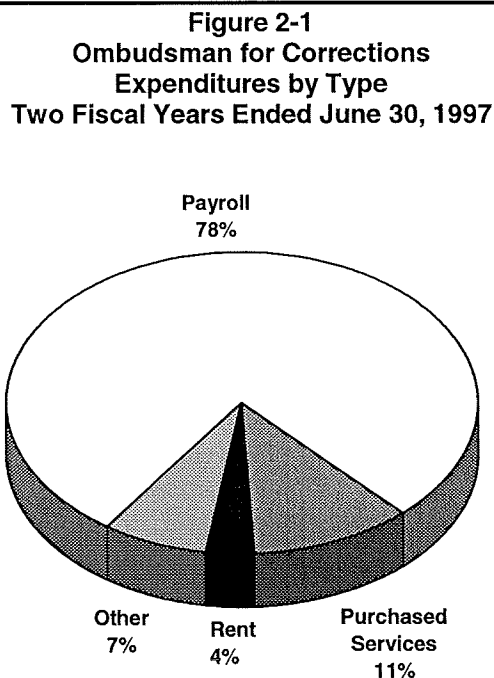
Source: State of Minnesota accounting reports for fiscal years 1996 and 1997 as of September 1996 and September 1997, respectively.

Chapter 2. Financial Activities

Chapter Conclusions

The Ombudsman for Corrections designed and implemented internal controls to provide reasonable assurance that expenditures were properly authorized, adequately documented, and accurately reported in the state's accounting system. However, we found that the agency needs to review SEMA4 payroll processing reports and restrict access to its personnel/payroll system and data. For the items tested, we found that agency staff were compensated in accordance with the provisions of the applicable bargaining unit agreements.

The Ombudsman for Corrections expenditures are mainly for payroll costs and administrative expenses necessary to operate the agency. Payroll is the largest expenditure category for the agency, totaling \$1 million or 78 percent of total expenditures in fiscal years 1996 and 1997. The agency also incurs significant expenditures for purchased services and rent. Our audit included a review of payroll, rent, and purchased services. The agency maintained and recorded its financial activities on the state's accounting system (MAPS). Figure 2-1 shows the percentage of expenditures by type for the two fiscal years ended June 30, 1997.



Note: 'Other' expenditures include supplies, equipment, repair and maintenance, tuition and conference fees, and travel reimbursements, etc.

Source: Minnesota Accounting and Procurement System (MAPS) for fiscal years 1996 and 1997 as of September 1996 and September 1997, respectively.

Ombudsman for Corrections

Audit Objectives

We focused our review of payroll, rent, and purchased services on the following objectives:

- to determine if the Ombudsman for Corrections designed and implemented internal controls to provide reasonable assurance that expenditures were properly authorized, adequately supported, and accurately reported in the accounting records.
- to determine if the Ombudsman for Corrections complied with applicable bargaining unit agreements and material finance-related legal compliance provisions.

To meet these objectives, we interviewed agency employees to gain an understanding of the internal control structure over payroll and other expenditures. We performed analytical reviews to evaluate trends in specific accounts throughout our audit period. We selected a sample of payroll and disbursement transactions to test accuracy and compliance with applicable legal provisions and employee bargaining unit agreements.

Conclusions

The Ombudsman for Corrections designed and implemented internal controls to provide reasonable assurance that payroll, rent, and purchased service expenditures were properly authorized and documented and accurately recorded in the accounting records. However, as discussed in Finding 1, the agency needs to review SEMA4 payroll processing reports and restrict access to its payroll and personnel system and data. For the items tested, we found that agency employees were compensated pursuant to bargaining unit agreements, and other expenditures were processed in accordance with finance-related legal provisions.

1. The Ombudsman for Corrections did not review key SEMA4 payroll processing reports and did not restrict employee access to its personnel/payroll system.

The Ombudsman for Corrections lacks a critical review of standard SEMA4 biweekly payroll processing reports. In addition, the agency has not restricted employee access to SEMA4 to provide a separation of incompatible functions. These weaknesses increase the risk that errors or irregularities could occur and go undetected.

We found that the agency was not receiving and reviewing key SEMA4 reports. The Departments of Employee Relations and Finance require all agencies to compare input documents, such as timesheets and payrate increase authorizations, to the State Employee Management System (SEMA4) payroll processing reports at the end of every pay period. Two critical processing reports must be produced and reviewed:

- The *SEMA4 Payroll Register* is a report listing employee payrates and timesheet hours worked and leave taken. A review of this report will provide an assurance about the hours and payrates processed on upcoming paychecks.

Ombudsman for Corrections

- The *SEMA4 Payroll Posting Audit Trail* provides the agency with total payroll expenditures, gross pay plus employer contributions for FICA, retirement, and insurance that were posted to their accounts in MAPS.

We also found that the agency provided one employee with the ability to update all SEMA4 personnel and payroll functions. SEMA4 was designed with separate human resource and payroll profiles so that incompatible responsibilities could be properly separated. Allowing incompatible access to human resource and payroll functions increases the risk that an individual could enter erroneous or fraudulent transactions that may not be detected by the agency's controls. If full access must be retained because of limited staffing, the agency should consider having someone not involved in either payroll or personnel processing review the SEMA4 reports.

Recommendation

- *Ombudsman for Corrections should restrict SEMA4 access to minimize incompatible functions, or assign another individual with non-conflicting duties the responsibility to review SEMA4 processing reports for accuracy.*

Ombudsman for Corrections

Status of Prior Audit Issues As of July 7, 1998

Most Recent Audit

October 1992, Legislative Audit Report 92-70 covered the three fiscal years ending June 30, 1991. The audit scope included a review of payroll and travel costs. The report cited no audit issues.

State of Minnesota Audit Follow-Up Process

The Department of Finance, on behalf of the Governor, maintains a quarterly process for following up issues cited in financial audit reports issued by the Legislative Auditor. The process consists of an exchange of written correspondence that documents the status of audit findings. The follow-up process continues until Finance is satisfied that the issues have been resolved. It covers entities headed by gubernatorial appointees, including most state agencies, boards, commissions, and Minnesota state colleges and universities. It is not applied to audits of the University of Minnesota, any quasi-state organizations, such as the Metropolitan agencies or the State Agricultural Society, the state constitutional officers, or the judicial branch.



STATE OF MINNESOTA
OMBUDSMAN for CORRECTIONS

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August 26, 1998

Mr. James R. Nobles, Legislative Auditor
Office of the Legislative Auditor
1st Floor South, Centennial Building
658 Cedar Street
St. Paul, MN 55155

Dear Mr. Nobles:

Thank you for your recent audit of the Office of the Ombudsman for Corrections. We appreciated your staff's patience as we gathered the many documents necessary for the review.

I have had a chance to review the audit report which was issued to me earlier this month. In response to your recommendations regarding our personnel and payroll records, we have taken the following measures:

- As we described to your staff, we have always reviewed payroll reports, albeit informally. However, in July, I implemented a formal ongoing process for review of SEMA4 reports. In addition, in July, we also changed the security clearances which now restrict access to personnel and payroll system and data.

I believe these were necessary changes to make and believe that they address the concerns raised by your staff in the audit.

Once again, thank you for your timely completion of the audit.

Sincerely,

A handwritten signature in cursive script that reads "Patricia Seleen".

Patricia Seleen
Ombudsman