Sentencing Guidelines Commission

Financial Audit
For the Period July 1, 1995, through June 30, 1998

May 1999

Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

99-25

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SUMMARY

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For the Period July 1, 1995, through June 30, 1998

Public Release Date: May 6, 1999 No. 99-25

Agency Background

The Minnesota Sentencing Guidelines Commission operates under Minn. Stat. Section 244.09. The commission consists of 11 members representing both the criminal justice system and the general public. It conducts ongoing research regarding sentencing guidelines and other matters relating to improvement of the criminal justice system. The commission appoints the executive director who is responsible for directing the commission's professional staff in accordance with its policies. Ms. Debra L. Dailey is the current executive director of the commission.

The Sentencing Guidelines Commission finances its operations through General Fund appropriations from the State of Minnesota. The Department of Corrections provides accounting and personnel services to the commission. The commission's appropriations were $369,000, $371,000, and $435,000 for fiscal years 1996, 1997, and 1998, respectively.

Audit Scope and Conclusions

Our audit of the Sentencing Guidelines Commission focused on administrative expenditures for payroll, rent, and purchased services from July 1, 1995, to June 30, 1998.

We concluded that the commission accurately paid its employees and properly recorded payroll expenditures. However, we observed some control concerns during our review. The commission did not receive and review key SEMA4 payroll processing reports and allowed excessive access for Department of Corrections staff to update to its accounting and payroll system data.

The commission paid rent and purchased service costs in accordance with contractual agreements and properly recorded these expenditures in the accounting system. For the items tested, the commission complied with applicable legal provisions. However, we found that the commission incurred certain obligations without an executed contract and paid some vendors late.

The Sentencing Guidelines Commission agreed with the findings and recommendations in the audit report. They are working with the Department of Corrections to resolve the issues raised.

STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

JAMES R. NOBLES, LEGISLATIVE AUDITOR

Representative Dan McElroy, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. Stanley J. Suchta, Chair
Sentencing Guidelines Commission

Members of the Sentencing Guidelines Commission

Ms. Debra L. Dailey, Executive Director
Sentencing Guidelines Commission

We have audited the Sentencing Guidelines Commission for the period July 1, 1995, through June 30, 1998, as further explained in Chapter 1. Our audit scope focused on employee payroll and administrative disbursements.

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. Those 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 Sentencing Guidelines Commission complied with provisions of laws, regulations, and contracts that are significant to the audit. The management of the Sentencing Guidelines Commission is responsible for establishing and maintaining the internal control structure and complying with applicable laws, regulations, and contracts.

This report is intended for the information of the Legislative Audit Commission and the management of the Sentencing Guidelines Commission. This restriction is not intended to limit the distribution of this report, which was released as a public document on May 6, 1999.

James R. Nobles
Legislative Auditor

Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

End of Fieldwork: February 26, 1999

Report Signed On: April 30, 1999

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Sentencing Guidelines Commission

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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
Carl Otto, CPA, CISA	Auditor-in-Charge
Crystal Eskridge	Auditor

Exit Conference

We discussed the results of the audit with the following representatives of the Sentencing Guidelines Commission and the Department of Corrections at an exit conference on April 22, 1999.

Debra Dailey	Executive Director, Sentencing Guidelines Commission
Jodi Ehlence	Office Administrator, Sentencing Guidelines Commission
Ralph Fredlund	Accounting Supervisor, Department of Corrections

Chapter 1. Introduction

The Minnesota Sentencing Guidelines Commission operates under the authority of Minnesota Statutes Section 244.09. The commission consists of 11 members representing both the criminal justice system and the public. The purpose of the commission is to establish rational and consistent sentencing standards that reduce sentencing disparity, increase proportionality in sanctions, and ensure uniform sentencing for convicted felons. It conducts ongoing research regarding sentencing guidelines and other matters relating to improvement of the criminal justice system. Information is collected on actual sentencing practices and compared to sentences recommended by commission standards and guidelines.

The Sentencing Guidelines Commission employs eight full-time staff. Debra L. Dailey is the current executive director of the commission. The Department of Corrections provides accounting and personnel services to the commission as part of a shared services agreement between the two agencies. The agreement authorizes the commission to provide prison population projections to the Department of Corrections in exchange for accounting and personnel services.

The Sentencing Guidelines Commission is funded from General Fund appropriations. Table 1-1 summarizes the commission's appropriations and expenditures for the three-year audit period.

Table 1-1
Sentencing Guidelines Commission
Summary of Financial Activity
Fiscal Years 1996 - 1998

	1996	1997	1998
Resources available for expenditures:			
Appropriations	$369,000	$371,000	$435,000
Balance Forward In	0	4,893	0
Balance Forward Out	(4,893)	0	(20,120)
Transfers In – Salary Supplement	8,234	14,948	0
Cancellations	0	(524)	0
Total Resources Available	$372,341	$390,317	$414,880
Expenditures:			
Payroll	$305,564	$323,326	$361,460
Workers Compensation	14,323	11,458	1,211
Rent	15,371	15,732	18,784
Purchased Services	21,021	13,529	8,510
Other Expenditures	16,062	26,272	24,915
Total Expenditures	$372,341	$390,317	$414,880

Source: Minnesota Accounting and Procurement System (MAPS).

Chapter 2. Administrative Expenditures

Chapter Conclusions

The Sentencing Guidelines Commission paid its employees in accordance with applicable bargaining agreements and management's authorization. It properly recorded payroll transactions in the accounting and payroll systems. However, we found that the commission needs to review key SEMA4 payroll processing reports. Controls need to be strengthened by limiting access that Department of Corrections employees have to update commission accounting and payroll data.

The commission paid rents and purchased services in accordance with contractual agreements and properly recorded them in the accounting system. For the items tested, the commission complied with finance-related legal provisions. However, we found that the commission incurred certain obligations without an executed contract resulting in delayed payments to the vendors.

The Sentencing Guidelines Commission received a direct General Fund appropriation from the Legislature to finance its operating activities. There were no specific restrictions on the use of its appropriation funding. The commission had the authority to carry forward unexpended funds between fiscal years of the two-year biennium.

Payroll was the largest operating cost for the commission, comprising 83 percent of total expenditures. Other administrative expenditures were mainly for rent and purchased services, such as data processing, communications, and computer network costs. Commission financial documents are reviewed, approved, and forwarded to the Department of Corrections for processing. Department of Corrections staff input commission payments into the state's accounting system, Minnesota Accounting and Procurement System (MAPS). Similarly, personnel and payroll are processed through the State Employee Management System (SEMA4).

Payroll

The commission had seven full-time employees and added a new position during fiscal year 1998. The executive director authorized personnel rate changes, approved biweekly time sheets, and forwarded them to the Department of Corrections for processing. During fiscal years 1996 and 1997, the commission incurred additional workers' compensation costs for an injured worker.

We focused our review of payroll expenditures on the following objectives:

- Were Sentencing Guidelines Commission employees paid in accordance with applicable bargaining unit agreements and management's authorization?

- Were payroll expenditures properly recorded in the accounting system (MAPS) and payroll transactions properly recorded in SEMA4?

To answer these questions, we interviewed staff from the Sentencing Guidelines Commission and Department of Corrections to gain familiarity with payroll/personnel processing and controls. We analyzed employee compensation, compared hours worked to timesheets, and tested payrate increases for management authorization and compliance with the bargaining unit agreements. Workers' compensation claims were compared to amounts invoiced by the Department of Employee Relations' Workers' Compensation Division.

Conclusions

Our review of payroll found that the commission employees were paid according to management's authorization and the applicable bargaining unit agreements, and workers' compensation claims agreed with amounts invoiced. Payroll transactions were properly recorded in the state's payroll and accounting systems. However, we noted certain internal control concerns regarding review of payroll reports and payroll system access as discussed in the following finding.

1. The Sentencing Guidelines Commission did not review key SEMA4 biweekly payroll processing reports and did not restrict access to its payroll/personnel system.

The Sentencing Guidelines Commission lacked a critical review of key SEMA4 biweekly payroll processing reports. In addition, the commission did not limit the number of Department of Corrections staff with access to update SEMA4, including two staff with incompatible human resources and payroll privileges. These weaknesses create a risk exposure that errors or irregularities could occur and go undetected by commission management. Our audit did not detect any errors or inappropriate transactions during the audit period.

The commission did not receive and review key SEMA4 biweekly payroll reports. Department of Finance SEMA4 Policy PAY0028 requires all agencies to review compensated hours and payrates processed at the end of every pay period. Independent staff at either the Department of Corrections or the Sentencing Guidelines Commission did not perform this review. Two critical SEMA4 processing reports must be produced and reviewed:

- The *Payroll Register* identifies employee payrates and timesheet hours worked and leave taken. A review of this report will provide assurances about the hours and payrates being processed for upcoming paychecks.

- The *Payroll Posting Audit Trail* identifies total payroll expenditures, including gross pay plus employer contributions for FICA, retirement, and insurance that were posted to commission accounts in MAPS.

We also noted excessive SEMA4 access privileges for staff of the Department of Corrections who input payroll and personnel transactions for the commission. Two accounting staff from the Department of Corrections had incompatible access to update both human resource and payroll data. Thirteen Department of Corrections staff had ability to update SEMA4 payroll or personnel transactions; however, only one human resource employee and one payroll clerk had formal job responsibilities for input. Allowing excessive or incompatible access to human resource and payroll functions creates an unnecessary risk exposure for the commission, especially considering the lack of review of key SEMA4 output reports.

Recommendations

- *The Sentencing Guidelines Commission should review and approve key biweekly SEMA4 reports.*

- *The commission should work with the Department of Corrections to restrict incompatible access and limit the number of users with ability to update SEMA4 personnel and payroll data.*

Other Administrative Expenditures

We focused our audit work on the two largest expenditure areas, rent and purchased services:

Rent - The Sentencing Guidelines Commission is located at the University National Bank Building in St. Paul. The Department of Administration negotiated its lease rental for office space based on usable square feet of space occupied by the commission. A formal lease agreement outlines the rental terms and payment responsibilities. The commission's lease for calendar year 1998 required an annual rent of $21,800.

Purchased Services - The commission conducts ongoing research regarding crime and sentencing trends. It contracts with various vendors for services to assist in this effort. During the audit period, the commission contracted with the University of Minnesota for much of its data processing services. During fiscal year 1998, the commission acquired its own computer network to handle data processing needs and discontinued its contract with the University of Minnesota. Commission staff review and approve invoices and forward documents to the Department of Corrections for vendor payment processing.

Our review of administrative expenditures considered the following objectives:

- Did the commission pay its rent in accordance with its authorized lease contract, and properly record rent in the state's accounting system (MAPS)?

- Were commission purchased service expenditures documented, authorized, and accurately recorded in the state's accounting system (MAPS)?

- Did the commission purchased service expenditures comply with applicable finance-related rules and regulations?

To address these objectives, we discussed processing of transactions with Sentencing Guidelines Commission and Department of Corrections staff to gain familiarity with payment processing and controls. We analyzed rent transactions and compared them to the authorized lease agreements in effect during the audit period. Purchased service expenditures were analyzed and tested to determine if they were properly procured, authorized, and recorded.

Sentencing Guidelines Commission

Conclusions

The Sentencing Guidelines Commission properly documented, authorized, and recorded rent and purchased services expenditures in the state's accounting system. For the items tested, we found that the commission complied with applicable procurement rules and regulations, and made payments in accordance with executed leases and contracts. However, as discussed in Finding 2, the commission did not adequately restrict access to update its accounting system. In addition, we found that the commission incurred certain obligations without an executed contract resulting in delayed payments to the vendors. This concern is discussed more fully in Finding 3.

2. The Sentencing Guidelines Commission did not adequately restrict access to its accounting system.

The Department of Corrections performs purchasing and disbursement functions for the Sentencing Guidelines Commission. We found that four employees at the Department of Corrections had incompatible abilities to update both purchase and disbursement transactions for the commission. Allowing incompatible functions increases the risk that an individual could enter erroneous transactions that would not be detected. We also noted that an excessive number of Department of Corrections staff could update commission financial data. These staff had no job duties regarding the commission.

Recommendation

- *The Sentencing Guidelines Commission should improve separation of purchasing and disbursing functions by restricting incompatible access. The commission should work with the Department of Corrections to limit the number of users with ability to update its accounting data.*

3. The commission incurred obligations without an executed contract and made untimely vendor payments.

The Sentencing Guidelines Commission did not execute timely contracts and, as a result, did not pay certain vendors within 30 days as required by Minnesota Statute Section 16A.124. We noted concerns with several payment transactions including the following:

- Monthly office space rent payments were not paid timely on four occasions during the three-year audit period and once during fiscal year 1999. Unpaid rents accumulated for two or three months before payment was made. In two cases, rent was not paid timely due to the lack of an authorized lease agreement for the new rental period.

- Data processing services were acquired from the University of Minnesota during fiscal years 1996 and 1997. Invoices for services from July 1995 through June 1996 were not paid until July 1996. Obligations for services from July 1996 through March 1997 were not paid until April 1997. The commission delayed payment on these invoices because a formal statewide contract had not been finalized. The Department of Administration was responsible for negotiating this contract for the commission and other state agencies.

- We also noted three other cases where maintenance contracts and communication invoices had past due charges indicating payment was 30 to 60 days late.

The commission needs to initiate negotiations early to ensure that contracts are approved prior to their effective date. Without a binding agreement, the commission could be charged excessive contract rates for obligations it already incurred. In addition, vendors could assess late fees for untimely payments.

Recommendation

- *The Sentencing Guidelines Commission should negotiate timely contracts and pay undisputed invoices within 30 days as required by Minnesota Statutes.*

Status of Prior Audit Issues
As of February 26, 1999

Most Recent Audit

September 1995, Legislative Audit Report 95-38 covered the three fiscal years ending June 30, 1995. The audit included a review of payroll, rent, and data processing services. 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 on 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, and quasi-state organizations, such as the metropolitan agencies, or the State Agricultural Society, the state constitutional officers, or the judicial branch.

Minnesota Sentencing Guidelines Commission

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April 28, 1999

Brad White
Audit Manager
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Dear Mr. White,

This letter is in response to the draft audit report completed by your office and discussed at an exit conference on April 22, 1999. The audit focused on administrative expenditures for payroll, rent, and purchased services from July 1, 1995 to June 30, 1998. We are pleased that you found that generally employees were paid accurately, payments were properly recorded, and venders were paid on time. We recognize that you have some control concerns and discovered a few problems with contract obligations and a few late payments. We plan to address these concerns immediately to ensure they will not be a problem in the future.

Recommendation 1:

The Department of Corrections (DOC) will forward copies of the Payroll Register and the Payroll Posting Audit Trail to the Sentencing Guidelines Commission after each bi-weekly payroll is processed. We have already begun to receive these reports. The Office Administrator will review these reports first and forward them to me for my review and initials. We will file them in our office. If discrepancies are found, I will work with the DOC Financial Services to resolve them. In addition, SEMA4 clearances of DOC staff have been modified to eliminate incompatible access and to restrict the number of users.

Recommendation 2:

A restructuring taking place in DOC Financial Services will segregate payment responsibilities in a payables unit from budgeting, encumbering and ordering done by the accounting officer assigned to the Sentencing Guidelines Commission. MAPS clearances will be modified accordingly. In addition, some ordering will be done directly by staff in the Commission office.

Recommendation 3:

The Sentencing Guidelines Commission will negotiate contracts in a timely manner, particularly to avoid any delays in obtaining signatures which is what caused some of our problems with the lease agreement. We no longer have any issues with the University of Minnesota Computer Center as we no longer require their services. We believe some of the other noted late payments were due to problems associated with the transition to MAPS and to disputed invoices. We will make every effort to pay undisputed invoices within 30 days as required by Minnesota Statutes.

We appreciate your work in auditing our agency and for bringing forward your concerns. We believe that the actions we take to address your recommendations will ensure the continued excellence of this agency. Please let me know if you have any further questions or concerns.

Sincerely yours,

Debra L. Dailey

Debra L. Dailey
Executive Director

cc: Shirley Flekke, DOC Financial Services
Ralph Fredland, DOC Financial Services