O L A **OFFICE OF THE LEGISLATIVE AUDITOR**
STATE OF MINNESOTA

Financial Audit Division Report

Department of Corrections

July 1, 2003, through June 30, 2005

July 27, 2006 **06-20**

Financial Audit Division

The Office of the Legislative Auditor (OLA) is a professional, nonpartisan office in the legislative branch of Minnesota state government. Its principal responsibility is to audit and evaluate the agencies and programs of state government (the State Auditor audits local governments).

OLA's Financial Audit Division annually audits the state's financial statements and, on a rotating schedule, audits agencies in the executive and judicial branches of state government, three metropolitan agencies, and several "semi-state" organizations. The division also investigates allegations that state resources have been used inappropriately.

The division has a staff of approximately forty auditors, most of whom are CPAs. The division conducts audits in accordance with standards established by the American Institute of Certified Public Accountants and the Comptroller General of the United States.

Consistent with OLA's mission, the Financial Audit Division works to:

- Promote Accountability,
- Strengthen Legislative Oversight, and
- Support Good Financial Management.

Through its Program Evaluation Division, OLA conducts several evaluations each year.

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OFFICE OF THE LEGISLATIVE AUDITOR
State of Minnesota • James Nobles, Legislative Auditor

Senator Ann H. Rest, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Joan Fabian, Commissioner
Department of Corrections

We conducted an audit of the Department of Corrections for the period July 1, 2003, through June 30, 2005. Our audit scope included personnel and payroll controls and governmental grants and subsidies. Our objectives focused on a review of the department's internal controls over these financial activities and its compliance with applicable legal provisions.

The enclosed Report Summary highlights our overall audit conclusions. The specific audit objectives and conclusions for each area are contained in the individual chapters of this report.

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

/s/ James R. Nobles

James R. Nobles
Legislative Auditor

/s/ Cecile M. Ferkul

Cecile M. Ferkul, CPA, CISA
Deputy Legislative Auditor

End of Fieldwork: March 31, 2006

Report Signed On: July 21, 2006

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Table of Contents

Audit Participation

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

Cecile Ferkul, CPA, CISA	Deputy Legislative Auditor
Ken Vandermeer, CPA, CFE	Auditor Director
Pat Ryan	Auditor
Steve Johnson, CPA	Auditor

Exit Conference

We discussed the results of the audit with the following representatives of the Department of Corrections at an exit conference on July 10, 2006:

Joan Fabian	Commissioner
Dennis Benson	Deputy Commissioner
Lisa Cornelius	Assistant Commissioner
Rich Schoenthaler	Chief Financial Officer, MINNCOR
Chris Pizinger	Chief Executive Officer, MINNCOR
Marcie Koetke	Director of Education
Chris Dodge	Financial Management Director

Report Summary

Overall Conclusion:

The Department of Correction had inadequate controls for monitoring certain payroll and personnel transactions. The department generally complied with material finance-related legal provisions; however, it paid dentists more than the statutory compensation limits. The department could also improve its controls over grant funding and reporting requirements.

Key Findings:

- The department did not comply with certain payroll monitoring policies. (Finding 1, page 9)
- The department did not adequately monitor leave balance adjustments. (Finding 2, page 10)
- The department exceeded statutory salary limits paid to dentists. (Finding 3, page 11)
- The department did not adequately restrict access to its pay rate and other high-level personnel transactions. (Finding 4, page 11)
- The department did not ensure grantees met grant funding requirements. (Finding 5, page 14)
- The department did not ensure counties complied with financial reporting requirements for the community correction act. (Finding 6, page 15)

The audit report contained six audit findings relating to internal control and legal compliance.

Audit Scope:

Audit Period:
July 1, 2003, through June 30, 2005

Programs Audited:
- Personnel and Payroll Controls
- Governmental Grants and Subsidies

Agency Background:

The Minnesota Department of Corrections is a service and regulatory agency. It has a broad range of activities and responsibilities, including the operation of ten correctional facilities for adults and juveniles. The department has organized its operations into three divisions: Facility Services, Support Services, and Community Services. The department also has units for investigations, correctional industries, and health services. Additionally, volunteer citizen advisory groups assist the department in the areas of community corrections, women offender programs, and correctional industries. The department has over 4,000 employees.

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Chapter 1. Introduction

The Minnesota Department of Corrections is a service and regulatory agency. It has a broad range of activities and responsibilities, including the operation of ten correctional facilities for adults and juveniles. The department organized its operations into three divisions during the audit period: Facility Services, Operations Support, and Community Services. The department also had units for investigations, correctional industries, and health services. Additionally, volunteer citizen advisory groups assisted the department in the areas of community corrections, women offender programs, and correctional industries. The department had over 4,000 employees during the audit period.

The eight adult facilities served approximately 29,000 inmates during fiscal years 2004 and 2005. Inmates in state facilities had access to a variety of work, education, and other program activities. The correctional industries program, MINNCOR, provided inmates with work skills that could transfer to productive employment after release. Educational programs focused on basic literacy instruction. The department also provided specialized programs for sex offenders and chemically dependent inmates.

The Department of Corrections received the majority of its funding for operations from General Fund appropriations. In fiscal year 2005, General Fund appropriations financed 83 percent of the department's total expenditures. The department allocated state appropriations to the correctional facilities based on various factors, including prior year allocation, proposed spending plan, and inmate population estimates. In addition to the state appropriations, the department had resources from other sources, including federal grants and profit from the operation of MINNCOR Industries. These other resources are dedicated for specific purposes. For example, profit from MINNCOR Industries is dedicated to inmates' vocational training.

Table 1-1 summarizes the department's General Fund appropriations and its use of those funds for fiscal years 2004 and 2005.

Table 1-1
Financial Sources and Uses
General Fund Only
Fiscal Years 2004 and 2005

	2004	2005
Appropriations	$358,654,559	$362,871,815
Appropriation Cancellations	(426,813)	(373,785)
Deficiency Appropriation (Note 1)	0	4,070,000
Receipts	7,198	7,198
Balance Forward In	5,514,446	11,075,318
Total Sources	$363,749,390	$377,650,546
Payroll	$212,453,933	$216,977,535
Aid to Counties	60,980,164	60,885,772
Other Expenditures	76,725,974	97,820,944
Total Expenditures	$350,160,071	$375,684,251
Balance Forward Out	11,075,319	1,966,295
Reverted Appropriations	2,514,000	0
Total Uses	$363,749,390	$377,650,546

Note 1: The department received authorization for a deficiency appropriation of approximately $4.1 million in fiscal year 2005 (*Laws of Minnesota* 2005, chapter 2, section 5, subd.1). The funds were primarily used for salary shortages.

Source: Minnesota Accounting and Procurement System as of April 4, 2006.

The Office of the Legislative Auditor selected the Department of Corrections for audit based on an annual assessment of state agencies and programs. We used various criteria to determine the entities to audit, including the size and type of each agency's financial operations, length of time since the last audit, changes in organizational structure and key personnel, and available audit resources. It had been two years since our last audit of the department.

We also issued a Special Review of MINNCOR Industries for the period July 1, 2003, through March 31, 2006 (Report #06-21), which was released as a public document on July 27, 2006. We conducted a special review after receiving allegations concerning conflicts of interest, questionable contracting practices, improper disposition of state surplus property, and inappropriate donations to certain nonprofit organizations. The special review contained 8 findings and 15 recommendations.

Audit Approach

Our audit was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we obtain an understanding of the department's internal controls relevant to the audit objectives. We used the guidance contained in *Internal Control-Integrated Framework*, published by the

Committee of Sponsoring Organizations of the Treadway Commission,[1] as our criteria to evaluate agency controls. The standards also require that we plan the audit to provide reasonable assurance that the department complied with financial-related legal provisions that are significant to the audit. In determining the department's compliance with legal provisions, we considered requirements of laws, regulations, contracts, and grant agreements.

To meet the audit objectives, we gained an understanding of the department's financial policies and procedures. We considered the risk of errors in the accounting records and noncompliance with relevant legal provisions. We analyzed accounting data to identify unusual trends or significant changes in financial operations. We examined documents supporting the agency's internal controls and compliance with laws, regulations, contracts, and grant provisions.

[1] The Treadway Commission and its Committee of Sponsoring Organizations (COSO) were established in the mid-1980s by the major national associations of accountants. One of their primary tasks was to identify the components of "internal control" that organizations should have in place to prevent inappropriate financial activity.

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Chapter 2. Personnel and Payroll Controls

Chapter Conclusions

The Department of Corrections did not have adequate monitoring controls to ensure payroll expenditures and leave records were accurate and complete. The department generally complied with pay rate and leave accrual requirements; however, it paid its dentists more than the statutory salary limits.

Audit Objectives and Methodology

Our audit of personnel and payroll controls focused on the following questions:

- Did the department have controls to ensure that payroll expenditures recorded in the payroll and accounting systems were accurate and complete?
- Did the department have controls to ensure that employee leave records were accurate and complete?
- Did employees' pay rates and leave accrual rates comply with requirements outlined in compensation plans?

Background

Payroll is a significant expenditure for the State of Minnesota and the Department of Corrections. During budget fiscal year 2005, payroll expenditures for the state were about $3.1 billion. The department's payroll for this period was approximately $237 million, or 7.5 percent of the statewide total.

Payroll was the largest administrative expenditure for the Department of Corrections, comprising about 53 percent of its total expenditures. About 83 percent of the department's 4,089 employees worked at the correctional facilities. Employees belonged to seven different bargaining units, including AFSCME,[2] MAPE,[3] and the Middle Management Association.

The bargaining unit agreements and compensation plans specified employee compensation and benefits, and allowed for some unique compensation transactions for correctional employees. For example, since correctional facilities operate 24 hours a day, 365 days a year, correctional officers in the AFSCME bargaining unit received additional compensation for shift differential, overtime, premium, and holiday compensation. Less

[2] American Federation of State, County, and Municipal Employees
[3] Minnesota Association of Professional Employees

than two percent of the department's compensation cost was for overtime and premium pay.

The department funded the majority of its payroll costs through the General Fund. Table 2-1 summarizes the department's compensation costs by funding source for fiscal years 2004 and 2005.

Table 2-1
Summary of Payroll Costs by Fund
Fiscal Years 2004 and 2005

Fund	2004	2005
General	$212,453,933	$216,977,535
Miscellaneous Special Revenue	9,489,011	10,157,071
Federal	1,768,174	1,659,603
Miscellaneous Agency	547,363	660,184
Correctional Industries	6,464,491	7,470,857
Total Payroll Expense	$230,722,972	$236,925,250

Source: Minnesota Accounting and Procurement System.

Table 2-2 summarizes payroll costs by facility for fiscal years 2004 and 2005.

Table 2-2
Department of Corrections
Summary of Payroll Expenditures
Fiscal Years 2004 and 2005

Facility	2004	2005
Central Office	$ 66,873,593	$ 74,593,499
Stillwater	23,947,349	23,806,594
Lino Lakes	23,473,251	20,165,222
St. Cloud	20,248,625	19,593,410
Faribault	18,494,027	18,660,938
Moose Lake/Willow River	17,932,930	18,328,080
Rush City	14,953,919	15,829,568
Oak Park Heights	14,937,424	15,120,158
Red Wing	9,633,739	9,818,919
Shakopee	9,288,515	9,352,943
MINNCOR	8,120,757	8,963,615
Thistle Dew Camp	2,732,004	2,616,812
Sauk Center (Note 1)	86,839	75,492
Total	$230,722,972	$236,925,250

Note 1: The department closed the Sauk Center facility during fiscal year 1999, but as part of a settlement agreement, continues to pay health insurance premiums for retired employees.

Source: Minnesota Accounting and Procurement System.

Personnel and payroll responsibilities are shared by state agencies and two central oversight agencies: the departments of Employee Relations and Finance. The two oversight agencies maintain the central personnel and payroll system that is used by all state agencies. This computer system has many edits to promote personnel and payroll transactions that comply with legal provisions and terms in compensation plans. The system also has extensive on-line policies and procedures to help state agencies make complex decisions, such as hiring a new employee. However, agency personnel and payroll officers are ultimately responsible for understanding and complying with compensation plan terms and other pertinent legal provisions.

The commissioner of Employee Relations is the chief personnel and labor relations manager for the executive branch. In this capacity, the commissioner of Employee Relations oversees a wide array of functions, from negotiating compensation plans to maintaining the civil service classification system. To fulfill these duties, *Minnesota Statutes* give the commissioner of Employee Relations the authority to further delegate certain responsibilities to individual state agencies. The commissioner used this authority to delegate to the Department of Corrections the following duties:

- Establishment of starting pay rates for employees accepting initial employment to state service.
- Determination of the rate of pay an employee receives upon promotion to a higher classification.
- Determination of salary rates for work out of class positions.

The conclusions reached in this report are based solely on work done at the Department of Corrections. In addition, the Office of the Legislative Auditor also performed audit work to assess the adequacy of centralized personnel and payroll controls administered by the departments of Employee Relations and Finance. Legislative Audit Report #03-47, issued in August 2003, focused on security controls that protect the integrity and confidentiality of data in the personnel and payroll system. It also assessed the adequacy of central controls over pay rates, leave accruals, and payroll processing. Due to the significance of payroll costs to the State of Minnesota, we continue to examine central personnel and payroll controls and will be issuing another report to the departments of Employee Relations and Finance at a later date.

Current Findings and Recommendations

1. The Department of Corrections did not comply with payroll monitoring policies established by the Department of Employee Relations.

The department did not periodically review the S*elf Service Time Entry Audit Report* as required by Department of Finance policy.[4] The policy requires agencies to monitor certain high risk transactions that it considers exceptions to the normal payroll process. The report identifies two types of exceptions, employees who did not complete their own timesheet and timesheets signed by a backup supervisor rather than the primary supervisor. These exceptions indicate a potential breakdown in the control process over the electronic processing of timesheets. The department began using self service time entry in June 2004.

[4] Department of Finance Operating Policy and Procedure PAY0017, *Employee Self Service Time Entry*.

According to the policy, agencies should review, at a minimum, a representative sample of transactions appearing on the report each pay period. They should determine why employees did not complete their own time entry, or why a backup supervisor approved the time. The policy also requires agencies to record the reasons for the exceptions and retain the information for audit purposes. The S*elf Service Time Entry Audit Report* should also be reviewed for possible trends where employees are not routinely completing their time entry, or primary approvers are not routinely approving time. The department initially reviewed the report at its central office, but discontinued the practice of reviewing the report each pay period. In addition, the exceptions to normal processing recorded each pay period did not always contain sufficient notation to properly explain the situation.

A high volume of exceptions may indicate significant departures from established processing procedures. It could also indicate a poorly designed control process, which may require further revision to the delegation of supervisory reviews and the exception report itself. However, reviewing the report each pay period, and properly documenting comments to explain exceptions, may improve the departments focus on certain high risk transactions. In addition, ensuring that employees complete their own time entry and that primary supervisors routinely approve the time reports would reduce the number of errors or irregularities and improve controls over this significant expenditure.

Recommendations

- *The department should improve comment documentation explaining exceptions reported each pay period on the Self Service Time Entry Audit Report.*

- *The department should review the Self Service Time Entry Audit Report each pay period to ensure employees are completing their own time entry and primary approvers are routinely approving time.*

2. The Department of Corrections did not adequately monitor leave balance adjustments.

The department did not adequately review leave balance adjustments made to employee records by a payroll entry clerk. Department of Finance policy[5] requires agencies to monitor leave balance adjustments by reviewing the payroll register report.

Leave balance adjustments increase or decrease employees vacation, sick, and other leave benefit balances. The department reviewed the payroll register report for certain unusual codes, but did not review specifically for leave balance adjustments. Without a review of leave balance adjustments, the risk of errors or irregularities increases.

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[5] Department of Finance Operating Policy and Procedure PAY0028, *Agency Verification of Payroll and Human Resource Transactions*

Recommendation

- *The department should ensure leave balance adjustments are reviewed according to DOER policy.*

3. The Department of Corrections exceeded statutory salary limits on salaries paid to nine dentists.

The department paid nine full-time dental staff more than the annual salary for the agency head. The department exceeded statutory salary limits in fiscal years 1996 to 2006 and overpaid the dentists, in total, about $34,400.

Minnesota Statutes 2005, 43A.17, subd. 1 states:

> …the head of a state agency in the executive branch is the upper limit on the salaries of individual employees in the agency….

The agency head hourly pay rate is $51.91, while the dentists received hourly rates between $51.99 and $57.05. The department incorrectly paid dentists under a medical specialist exemption provided for in *Minnesota Statutes* 2005, 43A.17, subd. 4a.[6] The Department of Employee Relations, however, contacted the Department of Corrections and explained that dentists do not qualify as medical specialists. The statute defines medical specialists as doctors of medicine.[6]

The department is seeking repayment from the dentists. *Minnesota Statues* 2005, 16D.16 provides the department with authority to recoup overpayments resulting from unintentional errors to current and former employees.

Recommendations

- *The department should pay employee salaries within established limits.*
- *The department should seek recovery for overpayments from current and former employees.*

4. The Department of Corrections did not adequately restrict access to its payroll and personnel systems.

The department did not terminate the payroll and personnel systems access for 16 employees when the job duties of these employees changed and they no longer required update access to employee compensation functions. With update access, these employees could enter pay rate and other high level personnel transactions that may circumvent the normal processing of certain transactions. In addition, two facilities have an excessive number of positions with the ability to adjust leave balances.

[6] The 2006 Legislature modified this statute to include doctors of dental surgery in the definition of medical specialists, allowing them to be exempt from the salary limit. The new law is effective July 1, 2006.

Department of Corrections

The personnel unit reviewed the payroll and personnel systems' access privileges for a job position when it was initially created and again when a person terminated employment. A review of incompatible access privileges was also performed annually to identify privileges that should not be assigned to the same person. However, the department did not review security privileges for staff that transferred positions or locations within the department. The department also did not centrally review the number of positions with clearance to provide backup duties.

Unnecessary update access for either primary or backup positions could result in errors or irregularities in the department's compensation expenditures. Although the department had detective controls in place to monitor compensation transactions, eliminating unneeded update access would ensure preventative controls over payroll processing exist.

Recommendation

- *The department should review payroll and personnel system access privileges by job position, employee, and location for unneeded access on an annual basis.*

Chapter 3. Governmental Grants and Subsidies

Chapter Conclusions

The Department of Corrections properly authorized grant awards but did not adequately control grant and subsidy payment documentation. Specifically, the department did not conduct reviews of grant and subsidy payment documentation to monitor and assess the appropriateness of expenditures by local governmental units.

The department complied with grant funding formula criteria or allocations established in statute. However, the departments annual monitoring of financial reporting requirements does not comply with quarterly requirements established in statute.

Audit Objectives and Methodology

Our audit of grant and subsidy transactions focused on the following questions:

- Did the department have controls to ensure proper authorization of grant awards to counties?
- Did the department have controls to ensure proper documentation exists to support grant payments to counties?
- Did the department have controls to ensure grant award contracts communicate legal provisions to comply with legislative intent?
- For the items tested, did the department comply with funding criteria and financial reporting requirements established in statute?

Background

The Department of Corrections received grants for the purpose of improving the delivery of correctional services. Most grants flowed through to counties to assist in the development, implementation, and operation of community-based corrections programs. Recipients used the funding for salary costs and other related program costs as allowed in grant agreements or appropriation laws. The department distributed funds based on statutory funding formulas or other criteria established in appropriation laws and grant funding contracts.

Department of Corrections

Grant expenditures comprised approximately 15 percent ($127 million) of total expenditures. The funding source in fiscal years 2004 and 2005 was primarily the General Fund ($124 million or 98 percent). The department processes all grant activity through the grant and subsidy unit located in the central office. The department's internal audit unit reviewed fiscal years 2003 and 2004 grant activity paid to various workshops or centers providing correctional services. Our testing concentrated on the grant activity to counties not reviewed by the internal audit unit, which was approximately $124 million.

Current Findings and Recommendations

5. The Department of Corrections did not ensure grantees met grant requirements established in statute and grant contracts.

The department did not review detailed documentation supporting actual grant expenditures. Local governmental units submitted financial information to the department using various documents, such as budgetary reports, financial status reports, and summarized financial information. However, grantees did not provide documentation sufficient to ensure compliance with statutory guidelines, matching requirements, and other grant provisions. In addition, on-sight reviews performed by the department did not include verification of financial information provided by the grantee.

The department granted funds primarily to counties to supplement salary costs of probation officers and other positions at the local level. Counties submitted budgetary reports to apply for funding and financial status reports to request reimbursement or report program expenditures. The financial status reports required an authorized signature certifying counties paid grant funds pursuant to the grant requirements, and that funding did not come from other sources. The financial status reports and grant agreements also required grantees to maintain detailed documentation at the local governmental unit.

Detailed documentation supporting expenses would include properly executed payrolls, time records, invoices, contracts, receipts, vouchers, and other documents sufficient to evidence the nature and propriety of the expenditure. Since the department did not require submission of detailed documentation and did not review detailed documentation at the local level, inappropriate expenditures could occur. For example, grant awards intended for a specific program purpose could be misused for other programs or for ineligible costs, or actual expenditure amounts could differ from reported expenditures.

Recommendation

- *The department should request detailed documentation supporting expenses sufficient to evidence the nature and propriety of the expenditure, or perform financial-related field audits to review documentation maintained by grantees.*

6. The Department of Corrections did not enforce statutory provisions governing financial reporting requirements for the community corrections act.

The department did not receive certified statements, such as financial status reports, on or before the end of each calendar quarter from Community Correction Act counties. The quarterly statements provide financial information for the 31 counties receiving monthly advances for Community Correction Act grants. Without timely statements, the department cannot comply with statutory requirements to perform quarterly settlements.

Minnesota Statutes 2005, 401.14, subd. 3 requires the department to distribute Community Correction Act grant funding to eligible counties in 12 monthly installments. *Minnesota Statutes* 2005, 401.15, subd. 1 requires counties to submit certified statements, such as financial status reports, on or before the end of each calendar quarter. According to the statute, the department shall make payment for any underpayment to counties and may withhold any excess payments from subsequent monthly payments.

According to the department, funding for Community Correction Act grants is decreasing, resulting in a lower risk that a county will not earn its monthly advance. In fiscal year 2005, only one county did not earn its entire allocation of community correction act funding. During fiscal years 2004 and 2005, the department analyzed year end reports to determine if advances exceeded the reported expenditures for the fiscal year. The department could seek changes to the statutory requirements for Community Correction Act program monitoring to bring current practices in line with the statutes.

Recommendations

- *The department should require counties to submit certified statements, such as financial status reports, on or before the end of each calendar quarter.*

- *The department could request statutory language changes to reflect current monitoring requirements of Community Correction Act grant funding.*

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Status of Prior Audit Issues As of March 31, 2006

<u>October 29, 2003, Legislative Audit Report 03-56</u> covered the selected Department of Corrections' activities for the three years ended June 30, 2002. The scope of the audit included employee payroll, contracts for health and food service, cell phone and special expense expenditures, and correctional industries' accounts receivable. The report contained three issues pertaining to contracts for health and food service, cell phone and special expense expenditures, and correctional industries' accounts receivable. We did not perform a follow-up on the prior audit issues.

Other Audit Coverage

<u>December 2005, Department of Corrections Internal Audit of Grants and Subsidies to Nonprofit Governmental Entities Report</u> was published by the department. The internal audit unit reviewed the fiscal year 2003 and 2004 nongovernmental grant activity, providing coverage on approximately three percent of total grant expenditures. Improved controls were noted since the fiscal year 2000 internal audit, with only minor instances of insufficient documentation to support invoice charges and adjustments cited as current findings.

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, any quasi-state organizations, such as metropolitan agencies or the State Agricultural Society, the state constitutional officers, or the judicial branch.

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MINNESOTA DEPARTMENT OF CORRECTIONS

OFFICE OF THE COMMISSIONER
Contributing to a Safer Minnesota

July 19, 2006

James R. Nobles, Legislative Auditor
Office of the Legislative Auditor
Room 140 Centennial Building
658 Cedar Street
St. Paul, MN 55155-1603

Dear Mr. Nobles:

Thank you for the opportunity to discuss and comment on the recommendations arising from the selected scope audit of the Department of Corrections. The efforts of your office are appreciated in conjunction with completing this audit. Below please find a response for each finding in the audit report.

<u>Recommendation</u>

> *The department should improve comment documentation explaining exceptions reported each pay period on the Self Service Time Entry Audit Report.*

<u>Response</u>

> Although the *Self Service Time Entry Audit Report* is lengthy, the number of exceptions on each page is most often limited to one, resulting in a low percentage of exceptions. With ten different correctional facilities some exceptions will be generated just due to the nature of operating with 24/7 staff coverage. Current supervisors have been instructed to insert comments in Self Service Time Entry when they complete a timesheet for an employee. This step will also be included in payroll instructions for supervisors. The report will be monitored each pay period to ensure this step occurs. Additionally, we will continue to monitor the usage of backup approvers and take any appropriate action.

Person Responsible:	Estimated Completion Date:
Chris Dodge	July 2006

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EQUAL OPPORTUNITY EMPLOYER

Recommendation

The department should review the Self Service Time Entry Audit Report each pay period to ensure employees are completing their own time entry and primary approvers are routinely approving time.

Response

The Department of Corrections agrees with this recommendation. Currently, some payroll locations are reviewing the report each pay period, while others are utilizing the report while conducting quarterly payroll reviews. We will comply with the Department of Finance policy and all locations will conduct a comprehensive review of the report each pay period.

Person Responsible:	Estimated Completion Date:
Chris Dodge	August 2006

Recommendation

The department should ensure leave balance adjustments are reviewed according to DOER policy.

Response

The payroll register report is reviewed each pay period at all payroll locations, and follow-up action is taken on any questionable entries. The reviewers are finance employees who do not enter payroll transactions. We will continue this practice paying special attention to leave balance adjustments. Upon completion of the review, the reviewers sign and date the payroll register report.

Person Responsible:	Estimated Completion Date:
Chris Dodge	Completed

Recommendation

The department should pay employee salaries within established limits.

Response

The Department of Corrections did not interpret M.S. 43A.17, subd. 4(a) correctly when establishing pay rates for dentists. When the Department received notification of inaccurate pay rates, corrections were made immediately. The above-mentioned statutory language was changed during the 2006 legislative session to include dentists as an exception.

Person Responsible:	Estimated Completion Date:
Karen McCarty	Completed

Recommendation

The department should seek recovery for overpayments from current and former employees.

Response

The Department of Corrections has followed the Department of Employee Relations policy on Collection of Overpayments for each of the dentists who were overpaid. Collection letters were sent to each of the employees in early June 2006.

Person Responsible:	Estimated Completion Date:
Karen McCarty	Completed

Recommendation

The department should review payroll and personnel system access privileges by job position, employee, and location for unneeded access on an annual basis.

Response

The Department of Corrections agrees with this recommendation. We currently receive annual reports from the Department Finance indicating employees who have access to the statewide accounting, personnel and payroll systems. Those reports are distributed and reviewed for appropriateness by position and employee. Changes are processed as necessary. There has been a considerable amount of position movement recently due to the centralization and regionalization of financial and human resources activities, which may have temporarily resulted in some employees having inappropriate access. Access privileges will be reviewed each time an employee changes positions within the agency.

Person Responsible:	Estimated Completion Date:
Chris Dodge	July 2006

Recommendation

The department should request detailed documentation supporting expenses sufficient to evidence the nature and propriety of the expenditure, or perform financial-related field audits to review documentation maintained by grantees.

Response

The Department of Corrections will require all non-profits and counties to provide their most current audit reports. The Department of Corrections periodically completes program audits of all non-profits entities. This audit will now include a financial component. Counties will be required to randomly submit expenditure detail information as requested by the Department of Corrections internal auditor.

Person Responsible:	Estimated Completion Date:
Chris Dodge	December 2006

Recommendation

The department should require counties to submit certified statements such as financial status reports on or before the end of each calendar quarter.

Response

Counties are required to submit financial status reports on or before the end of each calendar quarter. Occasionally county reports are submitted late. In those instances Department of Corrections staff follow up with the county to ensure the report is submitted.

Person Responsible:	Estimated Completion Date:
Cheryl Jahnke	Completed

Recommendation

The department could request statutory language changes to reflect current monitoring requirements of Community Correction Act grant funding.

Response

The Department of Corrections will propose changes to statutory language to reflect current monitoring requirements. This will be proposed during the next legislative session.

Person Responsible:	Estimated Completion Date:
Ken Merz	June 2007

It is the goal of the department to have corrected all of the audit report findings no later than June 2007. Thank you again for the efforts of your staff.

Sincerely,

Joan Fabian

Joan Fabian
Commissioner

Copy: Dennis Benson, Deputy Commissioner
Harley Nelson, Deputy Commissioner
Lisa Cornelius, Assistant Commissioner/Agency Chief Financial Office