STATE BOARD OF PUBLIC DEFENSE
FINANCIAL AUDIT
FOR THE FOUR YEARS ENDED JUNE 30, 1990

DECEMBER 1990

Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

90-71

Veterans Service Building, Saint Paul, Minnesota 55155 • 612/296-4708

STATE BOARD OF PUBLIC DEFENSE

FINANCIAL AUDIT
FOR THE FOUR YEARS ENDED JUNE 30, 1990

Public Release Date: December 14, 1990 No. 90-71

OBJECTIVES:

- EVALUATE INTERNAL CONTROL STRUCTURE: Payroll and board per diem, travel expenses, contracts, and other administrative disbursements.
- TEST COMPLIANCE WITH CERTAIN FINANCE-RELATED LEGAL PROVISIONS.

CONCLUSIONS:

We found two areas where the internal control structure needed improvement:

- The board needs to strengthen control procedures over the disbursement function.
- The board needs to verify the accuracy of the invoices submitted for law school students under contract.

We found that the State Board of Public Defense had complied with finance-related legal provisions.

Contact the Financial Audit Division for additional information.
(612) 296-1730

STATE OF MINNESOTA
OFFICE OF THE LEGISLATIVE AUDITOR
VETERANS SERVICE BUILDING, ST. PAUL, MN 55155 • 612/296-4708
JAMES R. NOBLES, LEGISLATIVE AUDITOR

Senator John E. Brandl, Chairman
Legislative Audit Commission

Members of the Legislative Audit Commission

Judge Kevin Burke, Chairman
State Board of Public Defense

Members of the State Board of Public Defense

Mr. Richard Scherman, Chief Administrator
State Board of Public Defense

Audit Scope

We have conducted a financial related audit of the State Board of Public Defense as of and for the four fiscal years ended June 30, 1990. Our audit was limited to only that portion of the State of Minnesota financial activities attributable to the transactions of the State Board of Public Defense, as discussed in the Introduction. We have also made a study and evaluation of the internal control structure of the State Board of Public Defense in effect at June 30, 1990.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial activities attributable to the transactions of the State Board of Public Defense are free of material misstatements.

As part of our study and evaluation of the internal control structure, we performed tests of the State Board of Public Defense's compliance with certain provisions of laws, regulations, contracts, and grants. However, our objective was not to provide an opinion on overall compliance with such provisions.

Management Responsibilities

The management of the State Board of Public Defense is responsible for establishing and maintaining an 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 Department of Finance policies and procedures.

Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

Internal Control Structure

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

- payroll,
- grant disbursements, and
- administrative disbursements.

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

Conclusions

Our study and evaluation disclosed the conditions discussed in findings 1 and 2 involving the internal control structure of the State Board of Public Defense. We consider these conditions to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data.

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

The results of our tests indicated that, with respect to the items tested, the State Board of Public Defense complied, in all material respects, with the provisions referred to in the audit scope paragraphs. With respect to items not tested, nothing came to our attention that caused us to believe that the State Board of Public Defense had not complied, in all material respects, with those provisions.

This report is intended for the information of the Legislative Audit Commission and management of the State Board of Public Defense. This restriction is not intended to limit the distribution of this report, which was released as a public document on December 14, 1990.

We would like to thank the State Board of Public Defense staff for their cooperation during this audit.

James R. Nobles
Legislative Auditor

John Asmussen, CPA
Deputy Legislative Auditor

END OF FIELDWORK: August 6, 1990

REPORT SIGNED ON: December 5, 1990

STATE BOARD OF PUBLIC DEFENSE

TABLE OF CONTENTS

		Page
I.	INTRODUCTION	1
II.	CURRENT FINDINGS AND RECOMMENDATIONS	2
	AGENCY RESPONSE	4

AUDIT PARTICIPATION

The following staff from the Office of the Legislative Auditor prepared this report:

John Asmussen, CPA	Deputy Legislative Auditor
Tom Donahue, CPA	Audit Manager
Ron Mavetz, CPA	Auditor-in-Charge

EXIT CONFERENCE

The findings and recommendations included in this report were discussed with the following staff from the State Board of Public Defense at the exit conference held on August 6, 1990:

Richard Scherman	Chief Administrator
Kevin Kajer	Fiscal Director

STATE BOARD OF PUBLIC DEFENSE

I. INTRODUCTION

In 1987, the legislature greatly expanded the State Board of Public Defense's statutory authority. Its membership was modified, an administrative office was created, greater oversight was instituted in regard to the state Public Defender's office, two new judicial district public defender positions and offices were created, new standards regulating the offices and conduct of all public defender organizations were mandated, and new reporting, budgeting and funding processes were established. These legislative changes created greater administrative controls over public defender operations, and significantly expanded the role of the board in governing public defender organizations

The State Board of Public Defense operates pursuant to Minn. Stat. Section 611.215. The board is a part of, but is not subject to the administrative control of, the judicial branch of government. The board consists of seven members: a district court judge and four attorneys appointed by the supreme court; and, two public members appointed by the governor. The board appoints a chief administrator to carry out its responsibilities. Mr. Richard Scherman has served as the chief administrator since January, 1988.

The primary purpose of the board is to provide quality legal defense services to the indigent of the state. As such, the board's duties and responsibilities include, but are not limited to, appointment of and administration thereof, of the state Public Defender, and all judicial district public defenders, except for the 2nd and 4th Judicial Districts. The board also provides policy and implements standards for all public defender organizations throughout the state. Those organizations include the state Public Defender's office, 10 Judicial District Public Defender organizations, 5 public defense corporations, and 87 local appointed counsel systems.

The board receives state funding for allocation and disbursement of its administrative services, the state Public Defender's office, public defense corporations, and distressed counties in support of Judicial District Public Defender systems. In addition, it has statutory authority to direct local jurisdictional (county) payments for all judicial district public defender offices, except for the 2nd and 4th Districts. Total expenditures from the General Fund for the State Board of Defense operations for the four years ending June 30, 1990 were:

1987	$1,397,471
1988	$2,216,576
1989	$2,887,721
1990	$2,636,812

Source: Statewide Accounting System Managers Financial Reports.

II. CURRENT FINDINGS AND RECOMMENDATIONS

1. Controls over disbursements need improvement.

The board does not properly separate disbursement duties or retain purchase orders and receiving reports. In addition, employee expense reports and receiving reports were not properly approved for payment.

The board has not adequately separated the disbursement duties between its staff. Currently, the accounting officer performs the purchasing and disbursing functions. These duties are incompatible and should be separated. This situation could be improved if the administrator, or his assistant, approved the purchase orders.

Employee expense reimbursement forms are not properly approved for payment. Employees fill out expense reimbursement forms whenever they incur costs reimbursable by the state. However, some reimbursement forms are processed for payment without supervisory approval. Supervisors should review and approve these costs before the board reimburses the employee. Also, receiving reports are not being signed or initialed to indicate that goods ordered and billed have been received. Receiving reports indicate the receipt and acceptance of goods and should be authorized by the employee receiving the goods. A packing slip or copy of the purchase order could also be used as a receiving report. The employee receiving the goods should then send the initialed report to accounting for comparison to the invoice. Accounting cannot be certain all goods were received and acceptable if an authorized receiving report is not on file.

The board does not keep receiving reports and purchase orders. Purchase orders identify the goods ordered and indicate that an order was properly approved. Receiving reports show the receipt and acceptance of an order and support the accuracy of the invoice for payment. Without these documents, it is difficult to determine if the board authorized these purchases or if the board received the goods it ordered. The board should retain the purchase orders and receiving reports as support for their purchases and subsequent payment.

RECOMMENDATIONS

- The board should have different staff performing the purchasing and disbursing functions.
- Supervisors should approve all employee expense reimbursement forms before the board reimburses employee expenses.
- Receiving reports should be initialed to indicate the receipt of goods and filed with the invoice to support the payment.

RECOMMENDATIONS (Continued)

- The board should keep purchase orders to support authorizations for purchases.

2. Controls over contract payments for law school students need improvement.

The board does not reconcile or verify the number of hours law students work to the invoice submitted by the law schools for reimbursement. The board has contracted with the University of Minnesota and William Mitchell Law Schools to provide law school students to perform various legal functions. These functions included legal research and writing and representing clients under the Student Practice Rule. The students are under the supervision of a public defender employee, who approves the students timesheets. The timesheets are submitted to the schools who, in turn, pay the students. The schools request a reimbursement from the board about once per quarter.

The invoice indicates the number of law students who participated and total hours worked. The invoice is signed by school employees. However, the board does not verify the accuracy of the invoice. As a result, errors could occur and go undetected. The board should keep a ledger of student hours worked and reconcile it to the invoice amount.

RECOMMENDATIONS

- The board should keep a record of law student hours worked in order to verify the accuracy of the invoices submitted for reimbursement.

STATE OF MINNESOTA
BOARD OF PUBLIC DEFENSE

Richard F. Scherman
Chief Administrator

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November 28, 1990

Thomas Donahue
Audit Manager
Office of the Legislative Auditor
Veterans Service Building
St. Paul, MN 55155

Dear Mr. Donahue:

Thank you for the opportunity to address the current findings and recommendations in your audit report. I concur with your audit findings and we are taking steps to implement the recommendations. I would like to answer each finding individually.

1) Controls over disbursements need improvement

In the past, due to a small staff, purchasing and disbursements had to be done by the same person. With the merger of the Board of Public Defense and the State Public Defender's Office, these duties can and now will be separated. Purchase orders for the office of the State Public Defender will now be approved by the State Public Defender. Purchase orders for the Board of Public Defense will now be approved by the Chief Administrator or the Budget Officer. Receiving reports will be signed or initialed by the Administrative Secretary of the Board of Public Defense for that office, and in the case of the State Public Defender's Office, the Office Manager, or Assistant State Public Defender. Purchase orders and receiving reports are being kept on file.

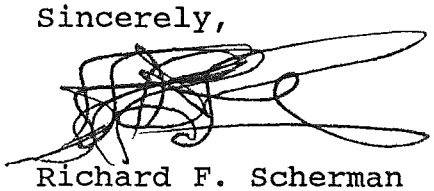
The nature of the work in the Office of the State Public Defender necessitates that many employees and supervisors travel to meet with their clients at the various institutions in the State. This makes it difficult at times for employees to acquire the proper signatures and be reimbursed in a timely manner. Reimbursements, however, in the future will not be honored without the proper signatures.

2) Controls over contract payments for law school students need improvement.

The Board concurs with the audit finding. The State Public Defender does sign off on all time sheets for the law school students. Copies of these records will be kept in the State Public Defender's Office for verification purposes.

Finally, I would like to take this opportunity to thank the Office of the Legislative Auditor for the very thorough and professional manner in which the audit was conducted.

Sincerely,



Richard F. Scherman

RFS:kjl