Office of the State Auditor

Audit Report

Department of Corrections
Mid-State Correctional Facility

July 1, 1994 to November 30, 1995

DEPARTMENT OF CORRECTIONS

MID-STATE CORRECTIONAL FACILITY

AUDIT REPORT

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The Honorable Christine Todd Whitman
Governor of New Jersey

The Honorable Donald T. DiFrancesco
President of the Senate

The Honorable Jack Collins
Speaker of the General Assembly

Mr. Albert Porroni
Executive Director
Office of Legislative Services

We have completed an audit of the Department of Corrections - Mid-State Correctional Facility for the period July 1, 1994 through November 30, 1995.

We found that the financial transactions included in our testing were related to the agency's programs, were reasonable, and were recorded properly in the accounting systems. However, we did note areas where improvement is needed. Internal controls were inadequate in certain areas and in one area resulted in the appearance of impropriety. Details of the findings and recommendations are included in our report.

This audit was conducted pursuant to the State Auditor's responsibilities as set forth in Article VII, Section 1.6 of the State Constitution and Title 52 of the New Jersey Statutes.

Richard L. Fair
State Auditor

Department of Corrections
Mid-State Correctional Facility

Scope

We have completed an audit of the Department of Corrections - Mid-State Correctional Facility for the period July 1, 1994 through November 30, 1995. Our audit included financial activities accounted for in the state's General Fund and the facility's nonappropriated accounts.

Total General Fund expenditures of the agency during the 17 month audit period were $25.2 million. The prime responsibility of Mid-State Correctional Facility is the detention and rehabilitation of offenders requiring medium security. There are no state revenues recorded in the facility's accounts.

Objectives

The objectives of our audit were to determine whether financial transactions were related to the agency's programs, were reasonable and were recorded properly in the accounting systems. We also tested for resolution of significant conditions noted in our prior report.

This audit was conducted pursuant to the State Auditor's responsibilities as set forth in Article VII, Section 1.6 of the State Constitution and Title 52 of the New Jersey Statutes.

Methodology

Our audit was conducted in accordance with Government Auditing Standards, issued by the Comptroller General of the United States.

In preparation for our testing, we studied legislation, administrative code, circular letters promulgated by the State Comptroller, and policies of the agency. Provisions that we considered significant were documented and compliance with those requirements was verified by interview and observation and through our samples of financial transactions. We also read the budget message, reviewed financial trends, and interviewed agency personnel to obtain an understanding of the programs and the internal control structure.

A nonstatistical sampling approach was used. Our samples of financial transactions were designed to provide conclusions about the validity of transactions as well as internal control and compliance attributes. Sample transactions were randomly and judgmentally selected.

To ascertain the status of findings included in our prior report, we identified corrective action, if any, taken by the agency and walked through the system to determine if the corrective action was effective.

Conclusions

We found that the financial transactions included in our testing were related to the agency's programs, were reasonable and were properly recorded in the accounting systems. In making this determination, we noted certain significant internal control weaknesses and matters of compliance with laws and regulations meriting management's attention.

We also found that the agency has resolved the significant issues noted in our prior report except for matters related to canteen operations. This issue has been updated and restated in our current report.

Details of our findings and recommendations follow.

Pharmaceutical Operations

Our review of the pharmaceutical operation at the facility disclosed an inadequate control structure and costs per inmate which were higher than other correctional facilities. The pharmacists at the facility, procured through an oral agreement to provide services at the facility, are also part owners of a local pharmacy which billed the facility $16,700 for mostly narcotic drugs during our audit period. The pharmacists order the stock (excluding that which is ordered through the local pharmacy), receive the stock, and prepare the receiving reports which initiate payment. There are no inventory records maintained for nonnarcotic stock which represented purchases totaling $250,000 in fiscal year 1995. The nonsegregation of duties combined with no inventory records has created a high risk control environment.

Our review disclosed one pharmacist removed stock from the facility for which he prepared a credit statement for $3,018 to the facility in September 1994. As of the end of our field work, 15 months later, no credit or cash payment had been received even though the pharmacy had billed the facility monthly for their prescription filling services. This transaction was supported only by the credit statement provided to us by the pharmacist. The superintendent stated he was aware of the transaction. However, no written documentation, including an approval, a list of what was removed and its value, or the credit statement, was provided by the facility.

Recommendation

We recommend that the facility collect the $3,018 credit owed from the pharmacist. In light of the impending privatization of medical services which includes pharmaceuticals, no recommendation is necessary addressing the internal control structure weaknesses. Based on the conditions found in the pharmaceutical operation at the facility, we have brought the issue to the attention of the Attorney General's office.

Internal Controls - Nonappropriated Funds

The facility maintains various nonappropriated funds for the benefit of the inmate population. These funds are accounted for separately from the state accounting system and therefore are not subject to the same internal controls inherent in that system. These funds include the inmates' trust, canteen and welfare funds as well as five other group accounts. Currently, the business office maintains these funds in separate bank accounts. There is approximately $2 million flowing through these accounts annually. Management's failure to implement an adequate internal control structure has created significant risk associated with these funds. Controls are necessary to ensure the integrity of bank and checkbook balances and to detect errors and irregularities on a timely basis.

The business manager was an authorized check signer for all nonappropriated accounts and was also responsible for preparing the bank reconciliations and financial statements. Although two signatures were required on all checks, the preparation of bank reconciliations and financial statements by one of the check signers represents an internal control weakness. In addition, we noted that bank reconciliations were not being prepared timely. At the end of our field work on December 29, 1995, the last set of bank reconciliations prepared were for August 1995.

As noted in our prior report of July 1991, there exists an inadequate segregation of duties involving canteen operations. The storekeeper is responsible for ordering canteen stock, including selection of the vendor, receiving delivery of canteen stock, preparing the receiving report which initiates payment by the business office, recording the receipt of stock in the inventory system, supervising inventory counts, and making adjustments to inventory. The canteen purchases $350,000 annually.

Recommendations

We recommend that the facility assign a person without check signing authority to prepare timely bank reconciliations for the nonappropriated accounts. We also recommend that the facility comply with our prior report recommendation to segregate canteen employee duties involving purchasing, receiving, inventory record keeping and supervising inventory counts.

Internal Controls - Appropriated Expenditures

Appropriation expenditures for nonpayroll costs were $5.5 million for the period of review. We noted an internal control weakness in the purchasing cycle. Duties of initiating a purchase, receiving, preparing the receiving report and having control over items purchased by the facility's various units are not segregated. In addition, the storeroom purchases are inventoried by the same person. Management's implementation of an adequate control structure which includes the proper segregation of duties is necessary to safeguard assets from loss or unauthorized use without being detected in a timely manner. In response to similar weaknesses noted in recent reports of other state correctional facilities, the Department of Corrections' Bureau of Audits and Accounts issued the department-wide Accounting Bulletin 96-30, dated December 1, 1995, which states in part, "Goods ordered are to be received by an individual or unit other than that requesting the goods or responsible for approving payment. Ideally, all goods should be received in a central unit responsible for the receiving function."

Recommendation

We recommend that the facility segregate employee duties to comply with the recently mandated Department of Corrections Accounting Bulletin 96-30.

Internal Controls - Payroll

Payroll costs were $19.6 million during the review period. We noted that the person responsible for preparing the payroll register, which is used by the Department of the Treasury's Centralized Payroll Unit to issue payroll checks, also received and distributed the payroll checks. In addition, this individual had access to the Department of Personnel's Personnel Management Information System (PMIS) with the ability to initiate the adding or deleting of persons from that system. This individual was temporarily filling in for a person on leave, who, when present, prepared the payroll register and received and distributed the payroll checks but did not have the add/drop PMIS access. The lack of an adequate control structure which segregates the disbursement initiation process from the handling of checks creates a high risk environment.

Recommendation

We recommend that the payroll register preparation process be segregated from the receipt and/or distribution of payroll checks.

Operational Costs

Custody personnel each receive one-half hour per day in overtime compensation for what union contracts consider meal time breaks. We noted, however, department administration actually use this time as overlap in shifts by direct custody personnel. One cannot leave his/her post until relieved by an incoming officer. Our review of the facility's "post trick" analysis which details the post coverages disclosed 40 posts staffed by correctional officers that are not filled by the subsequent shift. This equates to 20 overtime hours per day at an annual cost of over $200,000 per year to compensate for shift overlap that does not occur. The Department of Corrections is mandated by the union contract to compensate for shift overlap, nonetheless.

Recommendation

We recommend that during future contract negotiations, consideration be given to eliminating the daily one-half hour overtime payments for custody personnel assigned to posts which are not relieved by the subsequent shift.