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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 Juvenile Justice Commission, Juvenile Community Programs for the period July 1, 1995 to October 31, 1996.

Our report is transmitted herewith.

This audit was conducted pursuant to the State Auditor's responsibilities as set forth in Article VII, Section 1, Paragraph 6 of the State Constitution and Title 52 of the New Jersey Statutes.

Richard L. Fair
State Auditor
January 29, 1997

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Juvenile Justice Commission Juvenile Community Programs

Scope

We have completed an audit of the Juvenile Justice Commission, Juvenile Community Programs for the period July 1, 1995 to October 31, 1996. Prior to July 1, 1996, these programs were the responsibility of the Department of Human Services, Division of Juvenile Services. Our audit included financial activities accounted for in the state's General Fund.

Total expenditures of the Juvenile Community Programs during the 16 month audit period were \$41 million. The prime responsibility of the Juvenile Community Programs is to provide custody, care and treatment to juvenile offenders under the age of 18 years in state institutions and community programs. Revenues totaled \$17 million during our audit period and the major components of revenue were state facilities education funds.

Objectives

The objectives of our audit were to determine whether financial transactions were related to the commission'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, Paragraph 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 commission 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 populations were stratified and large dollar transactions were examined. Other transactions were judgmentally selected. We performed site visits at 10 facilities including 8 residential group centers and 2 day programs. The sites were selected based on geographical and programmatic criteria. These locations were deemed to be representative of the program as a whole.

To ascertain the status of findings included in our prior report, we identified corrective action, if any, taken by the center 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 commission's programs, were reasonable and were recorded properly in the accounting systems. In making this determination, we noted certain internal control weaknesses and matters of compliance with laws and regulations meriting management's attention.

We also found that the commission has resolved the significant issues noted in our prior report except for matters related to fixed assets and the resident and participant trust accounts. The commission is in the process of implementing a new fixed asset system. Issues relating to the trust accounts have been updated and restated in our current report.

Details of our findings and recommendations follow.

Food Purchases

The commission needs to strengthen controls over food purchases.

Internal controls over food purchases are not adequate to provide management with reasonable assurance that supplies are safeguarded against loss or unauthorized use or disposition. Expenditures for food amounted to \$1 million during the audit period. The Juvenile Justice Commission does not properly review and monitor food purchases for their facilities. Specifically, we noted the following.

- C Food purchasing and receiving functions were not properly segregated at six locations visited.
- C Food inventory records were not maintained at the ten locations visited, nor were there alternative methods used to monitor food consumption.
- C Receiving reports were not utilized.
- C Food purchases by the Campus Program totaled \$82,327 during fiscal year 1996 which represents the largest amount spent by any residential group center. These purchases seemed excessive when compared with the Camden Community Service Center which spent \$48,553 while serving more residents. In addition, menus provided by the Campus Program for the period January 25 through May 30, 1996 do not substantiate beef purchases from one vendor during the same period. We estimated that 1150 pounds of beef were used while 2500 pounds were purchased. Purchasing guidelines set forth by the Department of the Treasury, Division of Purchase and Property were not always adhered to at six facilities visited. Price competition was not obtained for invoices reviewed at four of these six facilities. Additionally, we noted that the Elizabeth Day Program purchased 93 percent of its food from a noncontract vendor. Many items purchased from noncontract vendors are available through the state distribution center or contract vendors, generally at a lower price.

Recommendation

We recommend that the commission establish a proper system of internal controls covering its food operations. We further recommend that purchases be reviewed and monitored to ensure compliance with established procurement procedures and to reduce the risk of loss or unauthorized use.

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Resident and Participant Trust Accounts

The commission needs to develop and implement policies and procedures to properly safeguard and account for resident and participant trust accounts.

Residents at the group centers and participants at the day programs are paid a nominal daily wage. During the audit period, wages paid totaled \$270,383. At most of the centers residents are not permitted to carry cash. Wages paid and any personal funds should be deposited in a bank account for proper safekeeping. The objective of our review at 10 selected locations was to determine if controls over the payment of wages and the operation and maintenance of the trust accounts were adequate to ensure that these funds were properly safeguarded and accounted for in the accounting records. We noted significant weaknesses that need to be addressed by management.

There are no written policies and procedures governing the payment of and accounting for resident and participant wages. Written procedures are necessary to ensure that transactions are processed in a consistent manner and that proper internal controls exist. Should employees have a question as to the proper handling of a transaction such information is not available in writing. Procedures have evolved over a period of years and varied significantly from one location to another. Of the 10 locations visited, six paid \$2 a day Monday through Friday excluding holidays, two locations paid \$1 a day Monday through Friday excluding holidays, and two paid \$1.50 a day Monday through Sunday including holidays.

Due to a limited number of administrative and clerical staff at the locations, duties and responsibilities are not properly segregated. We found that generally the custodian of the accounts, usually the superintendent or program supervisor, also signed the checks, cashed the checks, distrib-uted the

cash and prepared the bank reconciliations. Proper internal controls require that these functions be separated to reduce the risk of fraud, waste or abuse and the risk that errors may go undetected.

At five of the locations visited, bank statements were not properly reconciled to checkbooks. The check register at Hudson Day Program does not have a running balance. The bank statement at September 30, 1996 showed a balance of \$3,462. At the Southern Residential Group Center, the book balance was adjusted to agree with the bank statement without considering outstanding checks. This account was actually overdrawn \$115 at September 30, 1996. Our reconciliations at the three other locations also disclosed differences.

Subsidiary ledgers are necessary to properly account for resident and participant balances. These ledgers were not always maintained and reconciled with the book balance. The following conditions were noted.

- C At Southern Residential Group Center we found the records to be incorrect and unreliable. Twenty-two out of 47 (46 percent) individual ledger sheets were incorrectly totaled. The superintendent also informed us that between May and October 1996, 23 new residents entered the program and probably were advanced \$30 each. Ledger sheets for these residents were not available for our review. Disbursements from the account were not correctly deducted from the residents' balances. In one instance, \$440 was subtracted from resident balances for a \$260 payment. In another instance only \$15 was subtracted for a \$150 payment. July wages totaling \$1,528 had not been posted to the ledgers even though the money was received and deposited in the account. As noted above this account was overdrawn by \$115. The center's records indicate the residents are owed more than \$1,100.
- C The book balance at the Camden Community Service Center was \$1,414 more than the subsidiary records indicated.
- C Cash-on-hand totaling \$9,218 at the Campus Program was \$300 greater than the individual ledger cards totaled.

- C Subsidiary records were not maintained at the Elizabeth and Hudson Day Programs.
- C Differences noted at the other centers ranged from \$2 to \$1,044.

Unclaimed wages were not separately identified and escheated to the Unclaimed Personal Property Trust Fund in accordance with N.J.S.A. 46:30b-1 et seq. Generally, we found that the centers considered these funds to be general “house” funds to be used as they saw fit. Essex Residential Group Center used this money for travel reimbursements, computer parts, theater tickets, and a P.B.A. donation. For the 10 locations visited we estimated that the current balance in the “house” accounts to be over \$11,000.

Recommendation

We recommend that Juvenile Justice Commission develop and implement written policies and procedures covering resident and participant trust accounts. Procedures should provide for the consistent payment of wages, a proper segregation of duties and monthly reconciliations. Additionally, standardized subsidiary records should be developed to provide for the accurate and complete accounting for resident and participant trust account balances. We further recommend that unclaimed wages be identified and transferred to the Unclaimed Personal Property Trust Fund in accordance with the statutes.

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Atlantic County Detention Center Contract

The commission should bill Atlantic County in a more timely manner and reimburse the Treasury for fringe benefit costs.

Annual contracts with Atlantic County to operate the county detention center in Egg Harbor for calendar year 1995 and 1996 were not signed until October 1995 and September 1996, respectively. As a result, quarterly billings were not timely and state funds were initially used to fund the center.

Bills submitted for calendar year 1995 were inaccurate and not supported by the state's accounting system. Amounts billed included actual payroll costs including fringe benefits plus estimated expenses based on the original budget. We calculated that the county was overbilled by \$22,684. As of September 25, 1996 the commission had not billed Atlantic County for any calendar year 1996 expenditures.

Although a separate dedicated account was established on the state's accounting system, expenditures were frequently made out of other commission accounts. This practice results in funds being carried forward which would otherwise have lapsed to the General Fund. In addition, during fiscal year 1996 over \$207,000 in the dedicated account was used to purchase furnishings for the central office. We also noted, fringe benefits totaling \$199,550 were not reimbursed to the Treasury as required by Circular Letters 94-09.

Recommendation

We recommend that future contracts be executed in a timely manner to enable the commission to bill on a quarterly basis. In addition, the commission should utilize these funds only for the purposes for which they are dedicated.

We also recommend that the commission properly credit the Treasury for any fringe benefits costs recovered.

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State of New Jersey

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Christine Todd Whitma
Governor

Paul Donnelly
Executive Director

DEPARTMENTAL RESPONSE

January 17, 1997

Mr. Richard L. Fair
State Auditor
Office of Legislative Services
CN067
Trenton, NJ 08625-0067

Re: Juvenile Justice Commission - Juvenile Community Programs
July 1, 1995 to October 31, 1996

Dear Mr. Fair:

As invited by your letter dated January 7, 1997, I am submitting this response to the report of the audit of the Juvenile Justice Commission Community Programs for the period indicated above. The following responses will set forth both general approaches which will be undertaken by the Juvenile Justice Commission (JJC) as a result of the audit report as well as address specific findings.

Based on our experiences since receiving operating responsibility for Juvenile Community facilities on July 1, 1996, our course of action will center around training the superintendents and appropriate key employees at their facilities in the area of internal controls. We are currently investigating utilizing a training program similar to one recently conducted at the Department of Corrections. This training will teach the superintendents to maintain control over their food purchases, operating needs, and their off-line accounts in balance with discharging their program responsibilities.

Globally, the JJC will enlist the help of both the Attorney General's Office - Internal Controls, as well as, the Department of Human Services Audit Office. Each Department will assign one Auditor full-time from each department to perform some internal auditing. In addition, an accountant/auditor from the JJC will be assigned exclusively for assistance in the field in implementing some of the recommendations

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presented to the JJC by the State Auditors. A series of meetings with the regional managers and fiscal coordinators will commence in January. The fiscal practices at Warren and Camden facilities, which were cited as very good during the audit process, may be used as an example for other facilities to follow. An outline for the training will be developed during these initial meetings. After all our information is gathered, we can begin to hone in on some of the fiscally critical facilities and begin immediate corrective action.

Food Purchases

The Juvenile Justice Commission will undertake the following to address the findings in the audit report pertaining to food purchases.

In the short term, a review and inventory of all current food and food products by facility will be done during the first quarter of calendar year 1997. All standard operating procedures and pertinent circulars will be interpreted and distributed to the superintendents.

Additionally, a commodity code study will be done to determine the correct usage of these codes on procurement. Also, the competitive bidding process when the state contract vendors are not utilized will be reviewed by the Central Office.

All food purchases will be monitored via Focus reports reviewed at the Central Office level. Inconsistencies and trends in food expenditures will be closely investigated. Operationally, the JJC will work toward a centralized menu approach with regional coordination of purchasing food products.

Additionally all food purchases at the Campus Program must have the superintendent's approval.

Resident and Participant Trust Accounts

The JJC will begin to standardize the area of inmate wages and other off-line accounts used in the facilities. All cash kept in the facilities will be monitored and the use of checking accounts will be emphasized where feasible.

Additionally, a comprehensive look at the unused funds in each facility will be analyzed to determine the amount of these funds to be turned in to the Treasury Escheats Account.

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Currently, the Commission has taken steps in the Southern Region to secure a checking account for the cash in the Campus Program.

Atlantic County Detention Center Contract

To remediate the Atlantic County Detention situation, currently we

are investigating the Atlantic County billing process to:

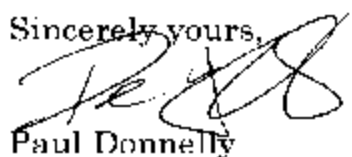
1. Determine if fringes should be paid to Treasury or should they be exempted.
2. Document operating expenses for this program and monitor before the billing process takes place.
3. Process billings in a timely manner.

I am confident that the measures outlined above will adequately address the findings contained in the audit report. I would like to take this opportunity in responding to the audit report to express my appreciation for the professional and positive efforts displayed by your audit staff.

cja
c Attorney General Verniero
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Sincerely yours,



Paul Donnelly
Executive Director
Juvenile Justice Commission

General