Department of Corrections
Selected Programs

July 1, 1998 to May 31, 2000

Richard L. Fair
State Auditor
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  

Enclosed is our report on the audit of the Department of Corrections, Selected Programs for the period July 1, 1998 to May 31, 2000.  

If you would like a personal briefing, please call me at (609) 292-3700.

September 11, 2000
Table of Contents

Scope .................................... 1
Objectives ................................. 1
Methodology ............................... 1
Conclusions ............................... 2

Findings and Recommendations

Monitoring .............................. 3
Fines Restitutions and Penalties ............. 6
Prior Audit Compliance .................... 9
Department of Corrections
Selected Programs

Scope

We have completed an audit of the Department of Corrections, Selected Programs, for the period July 1, 1998 through May 31, 2000. Our audit included financial activities accounted for in the state's General Fund, Correctional Facilities Construction Fund (1987) and Public Purpose and Community-Based Facilities Construction Fund.

The programs included in our review were:

- Division of Management and General Support
- Office of Parole
- System-Wide Program Support

Total expenditures of the selected programs during the audit period were $500 million. The prime responsibility of the Department of Corrections is providing for the custody, discipline, training and treatment of persons committed to state correctional institutions, on parole, or under community supervision. Revenues of the agency totaled $65 million during our audit period. The major components of revenue were state aid for education and federal funding for costs of incarcerating illegal aliens.

Objectives

The objectives of our audit were to determine whether financial transactions were related to the selected 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 audit we studied legislation, administrative codes, circular letters promulgated by the State Comptroller, and policies of the department. 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 reviewed financial trends and interviewed agency personnel to obtain an understanding of the programs and internal controls.

A non-statistical 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 judgmentally selected.

Conclusions

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. In making this determination, we noted weaknesses in the department's monitoring function and internal control meriting management's attention.

We also noted the department has not resolved an issue noted in our prior report. This issue has been restated in our current report.
The department's monitoring of private vendors and grantees needs improvement.

Monitoring

*Medical Contract Monitoring*

The Department privatized medical services to the inmate population in April 1996. Annual costs for the contract reached $75 million in fiscal year 1999. In accordance with Treasury Circular Letter 98-14 OMB *Professional Services: Review, Control, Monitoring and Extensions*, the department "has the primary responsibility for obtaining maximum value from its Professional Services contracts and to ensure that all deliverables are satisfactorily provided according to agreed upon schedules." The department has designated the 25 person Health Services Unit (HSU) to monitor contract performance and to assure the accuracy of vendor payments. Our review of the HSU, pursuant to the circular letter and its own internal procedures, has submitted numerous complaints to the Department of the Treasury's Purchase Bureau, but the complaints are not formatted in a manner sufficient for the Purchase Bureau to exercise sanctions against the vendor. Without corrective action enforcement capabilities, or action by the Division of Purchase and Property, the effectiveness of the HSU of ensuring satisfactory vendor performance is limited.

Recognizing its lack of enforcement remedies, the HSU prepared an *Objective Performance Criteria/Contract Monitoring Plan* which contained 82 criteria that the HSU would review. Non-compliance would result in monetary fines to the vendor. This plan was not adopted, but a three year contract extension became effective April 26, 1999 and included the clause "The Contract will be amended to include additional performance standards and additional liquidated damages for failure to meet those standards, as mutually agreed to by both parties." One year after the contract extension became effective, no additional performance
standards have been adopted by the Department of Corrections.

Community Service Programs

The Department of Corrections has entered into inter-agency contracts for 28 Residential Community Release Programs (halfway houses). As part of our review of this $44 million per year program, we reviewed the monitoring procedures performed by the Office of Community Programs. The office was unable to provide multiple reports and schedules that were to be used to ensure compliance to contract requirements. Three Residential Community Release Programs were sampled and 43 items required by contract to be provided to the office, were selected for our review. Seventy two percent of the items could not be provided by the office, including résumés and staffing schedules, written treatment plans, semi-annual performance appraisals and annual fire inspections. Although we independently obtained fire inspections, the lack of proper support indicates inadequate monitoring by the office.

Special Legislative Grant

The department administered a $250,000 special legislative grant to North Brunswick Township for the Straight-Up Program. The objective of the program is to establish redirection for township youth who are confronting life problems with negative alternatives. The Letter of Agreement requires grant funding to be expended during the grant award period July 1, 1998 through June 30, 1999. Our review disclosed that only $44,000 was expended as of May 31, 2000. Proper monitoring by the department would have resulted in either the unspent funds being returned or the preparation of a properly executed grant extension.
Recommendation

We recommend the Department of Corrections improve the monitoring of contractors and grantees.

Auditee’s Response

Medical Contract Monitoring

The Quality Assurance Section staff now meets regularly with the Compliance Unit of the Department of the Treasury to ensure that performance audits are being conducted in a manner that will support enforcement efforts. Recent approval to fill several Quality Assurance Specialist positions will enable more extensive and reliable auditing efforts in the future. The Health Services Unit plans to include the Objective Performance Criteria in future Requests for Proposals with the necessary guidance from the Department of the Treasury and the Attorney General’s Office. Inclusion of performance criteria in current contract extension may be difficult since both parties must agree.

Community Service Programs

The Office of Community & Drug Program Operations has reorganized their monitoring unit and developed a comprehensive “Contract Monitoring Work Plan” for staff to utilize during their review process. A training plan has also been developed to increase staff comprehension of the Contract Monitoring Work Plan. Additionally, office support staff will now assist in the tracking of the required reports and documents.

Special Legislative Grant

The department has advised the Grantee in writing that the grant period has been extended until December 31, 2000. The grantee has also been advised that any unexpended grant funds as of that date must be returned.
Several internal control weaknesses were noted in the department's fines, restitution and penalties collection process.

Fines Restitutions and Penalties (FRP)

The Department of Corrections is mandated to collect court ordered debt owed by offenders adjudicated to the department. The current fines and penalties which are assessed upon conviction include a range of legislatively mandated and court imposed monetary sanctions. Receipts from these sanctions are used to partially or wholly fund victim and community programs and law enforcement operations. Offenders can also be ordered to make restitution to compensate victims. Annual collections approximate $3 million. The department has taken great strides to comply with prior audit recommendations including the development and implementation of a database inclusive of all offender debt information, garnishing inmate wages for FRP, and reporting to Department of the Treasury, Set-off Individual Liability Programs for inmates leaving the correctional system with outstanding FRP. These changes should have a major impact on increasing FRP collections. Our current review, however, has disclosed conditions in the current processes warranting management's attention.

The department replaced its management information system through a vendor contract with a conversion in November 1999. As part of the new system, the department also replaced its Fines Restitution and Penalty System (FRAS). Due to inconsistent record identifiers on FRAS, the conversion of the FRAS data to the new TAG system resulted in only half of the records being converted which has created missed collection opportunities and caused hardship to institutions, district parole offices and the Central Office Revenue Unit, all of whom are responsible for collecting fines, restitutions, and penalties. It also requires significant effort by the department to correct the shortfall.

FRP receipts per FRAS do not reconcile to the state's accounting system (NJCFS) primarily because FRAS
postings were made on average 37 days prior to NJCFS posting. In addition, our review in March 2000 disclosed 8000 records, totaling $300,000 accumulating since September 1999 not posted to any system, although the collections have been deposited. This has created problems primarily for District Parole Offices (DPOs) which must process parolees whose balances are not current because much of the unposted activity is from residential community release programs (halfway houses). In addition, as noted later in this finding, manual records are being maintained at DPOs for FRP collections deposited on behalf of parolees whose cases did not convert to TAG. These issues prevent post conversion NJCFS and TAG reconciliation. Reconciliations are needed to support the accuracy of the state accounting system and subsequent payment of FRP to state agencies and victims.

The TAG system allows users with access to certain screens to input and change critical FRP data such as obligation balances and names and addresses of victims due restitution without any independent review or approval. Complicating the weakness is that this access is generally not consistent or based on institution or DPO need. Department records indicate 430 users have access to these screens, increasing risk of unauthorized use, loss or modification of financial data.

Our review of the FRP process at two DPOs disclosed internal control weaknesses. Aside from the aforementioned input and change capabilities on the TAG system by the bookkeepers, which we observed is common practice, there was no independent verification of the amount posted to TAG and/or manual records to the deposit. At both DPOs visited, the bookkeeper posted the records and prepared the deposits. Manual records are currently being maintained for those parolees whose records did not convert from FRAS to TAG.
An increased risk of misappropriation occurs without an independent comparison of the deposit to postings.

**Recommendation**

We recommend that the department continue its efforts to post nonconverted records to the TAG system, perform system reconciliations monthly, and review its system security policies to ensure only those who require access to perform job responsibilities are afforded it. In addition, the department should ensure changes to critical data are logged and reported for supervisory review, and require each DPO to have an independent employee verify the deposit agrees with TAG and manual postings.

**Auditee’s Response**

The department is continuing efforts to post all non-converted District Parole Office records to the cTAG system. The remaining 6,000 records will be the most difficult to convert. The first attempt to convert the remaining files will be through the use of software application being developed. If the software application is successful, the project should be completed by the spring of 2001. If the software application is unsuccessful, the remaining records will have to be individually researched and manually entered into the cTAG system. A completion date for this process can not be estimated at this time.

A procedure to perform monthly reconciliations has been developed and will be implemented in the near future. The District Parole Offices are currently performing daily reconciliations for those records successfully converted. The unconverted records are being maintained on a manual system until conversion.

The Office of Information Technology has made the necessary changes to the District Parole Office staff user profiles in cTAG. A supervisory access profile has been created which significantly reduces the number of individuals having direct access to files. Review and approval by the department’s Central
Office Revenue Unit is required when information such as obligation balances or names and addresses of victims due restitution are entered into the file. User profiles for institutional Business Office staff access to iTAG are currently being reviewed to reduce the number of staff having direct access and increase supervisory approval.

---

**Prior Audit Compliance**

The department did not forward unclaimed funds to the Department of the Treasury as recommended in our prior report.

**Recommendation**

Our prior report dated September 25, 1997 recommended that the department forward to the Department of the Treasury's Unclaimed Personal Property Fund approximately $300,000 in restitution collections over five years old which could not be identified as to the proper beneficiary (victim). This was not done.

We repeat our recommendation that the department implement procedures to comply with N.J.S.A. 2A:37-30 regarding the Unclaimed Personal Property Fund and to annually identify unclaimed funds meeting the statutory criteria for escheatment.

**Auditee’s Response**

The department is currently working with the software vendor to create a data file to transfer unclaimed personal property funds currently maintained on the FRAS system to the Department of the Treasury.