Office of the State Auditor

Audit Report

Department of Corrections

East Jersey State Prison

July 1, 1994 to April 30, 1996
# 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 - East Jersey State Prison** for the period July 1, 1994 to April 30, 1996.

We found that the financial transactions included in our testing related to the agency's programs, were reasonable, and were recorded properly in the accounting systems. However, we did note internal controls could be improved by segregating duties of employees and increasing monitoring procedures. Our tests also disclosed instances of noncompliance to purchasing procedures. Segregating the duties of employees and applying proper monitoring procedures reduce the risk that errors or irregularities could occur and remain undetected in the records. This risk is increased by not adhering to established procedures.

We also present recommendations to improve efficiency or reduce costs. We found that future contract negotiations should incorporate the possibility of eliminating the current requirement of paying one-half hour overtime per day to custody employees who are not assigned to positions being relieved by incoming officers. This totals approximately $500,000 per year.
In reviewing the financial statements pertaining to the Commissary Fund, we noted costs totaling $100,000 are incurred annually which are directly related to the commissary operation, but are currently being charged to general state appropriations. We recommend that costs attributed to the commissary be charged to that function.

We determined that food service workers were considering a one-half hour lunch break as a part of their regular work day. We estimated the loss of productive work time equated to approximately $50,000 per year.

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, Paragraph 6 of the State Constitution and Title 52 of the New Jersey Statutes.

Richard L. Fair
State Auditor
November 15, 1996
Scope

We have completed an audit of the **Department of Corrections - East Jersey State Prison** for the period July 1, 1994 to April 30, 1996. Our audit included financial activities accounted for in the state’s General Fund and in the prison’s nonappropriated Inmate Welfare Fund, the Inmate Store Account, and the Concession Stand Account. We reviewed the operating and recording procedures of the Inmate Trust Fund. We did not perform complete audit procedures for this account as the internal audit staff of the Department of Corrections has reviewed and is performing an ongoing monitoring function of the financial transactions and balances of this account.

Total appropriation expenditures of the agency during the 22 month audit period were $107 million. The prime responsibility of the East Jersey State Prison is the incarceration and care of persons convicted of offenses against society. The prison had no General Fund revenues during our audit period.

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, 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 agency personnel to obtain an understanding of the programs and the internal control structure.

A nonstatistical sampling approach was used. Samples were selected based on dollar value, attribute applicability and auditor judgment. Our samples of financial transactions were designed to provide conclusions about the validity of transactions as well as internal control and compliance attributes.

To ascertain the status of findings included in our prior reports, 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 related to the objectives of the agency, 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. Our review also noted areas where operating economies can be achieved by the facility.

We also found that the agency has resolved the significant issues noted in our prior report except for matters related to segregation of duties. These issues have been updated and restated in our current report.

Details of our findings and recommendations follow.
Operational Efficiencies and Cost Controls

We compared East Jersey’s spending to that of other similar institutions throughout the department. We reviewed those areas where costs were higher than the norm, and where we believed savings could effectively be made. Our conclusions are as follows.

C The cost of prescription and nonprescription drugs and medical supplies appeared to be above average. This was caused by using primarily one state contracted vendor whose prices are higher than others. Since this area of operations has been contracted to private concerns, further clarification and recommendations are not made.

C Custody personnel each receive one-half hour per day in overtime compensation for what the union contracts consider meal breaks. We noted, however, this time is used by the administration to overlap shifts by direct custody personnel. One may not leave his/her post until relieved by an incoming officer. We compared the “post trick” (manpower budget) and daily work schedules showing the various job coverages and noted 125 positions filled by correction officers who are not replaced by an incoming shift. Because the Department of Corrections is governed by the current union contract provision, we estimate unnecessary overtime costs to be approximately $500,000 per year.

C The prison maintains a commissary which enables prisoners to purchase various goods for their personal use. The department has recommended that items be made available at an average markup of five percent over cost. The profits from operations are transferred to the institution’s Welfare Fund which is used for purchases benefiting the population as a whole. We noted there are no administrative costs such as labor or supplies being charged to the commissary account. Various employees and compensated inmates spend portions of their time directly related to the commissary operations. Failure of management to include all costs of operations is contrary to the department’s current policy of making inmates participate in the funding of some of their incarceration costs. We estimate annual costs of $100,000 are charged to general state appropriations rather than being prorated to the commissary operations.

C Our review of food service personnel indicates that employees include a one-half hour lunch break as a part of their regular eight
hour work day. Department regulations and the employee union contract require employees to work eight hour shifts for a forty hour work week with an uncompensated lunch break. Ineffective monitoring of employee time by management has resulted in approximately $50,000 unearned compensation annually. When presented with our concerns regarding food service personnel, prison management took immediate steps to improve their monitoring process and ensure all employees now work a complete day. No further recommendation is necessary.

We recommend that costs attributed to operating the commissary be properly charged to that function, and that the commissary fund reimburse state appropriations as appropriate.

We recommend that during future contract negotiations the department consider eliminating the one-half hour daily overtime pay for all custody employees assigned to posts not being relieved by incoming shift personnel.

Internal Controls - Segregation of Duties

Management is responsible for establishing an internal control structure that will safeguard assets against potential loss, ensure the proper recording of transactions, and ensure compliance to laws, policies and procedures.

In our previous audit report, we recommended that duties of various employees be segregated to enhance internal controls in the payroll recording and distribution functions, and the operations of the nonappropriated funds and accounts.

During our current audit, we noted the condition remains that the same person preparing the reports used to create the payroll also receives and distributes the checks. In addition, we noted one functional area of the prison where the person(s) crediting employee pay time, including overtime, is responsible for recording his own time and attendance. Although daily supervisory reviews are made, we determined it consists only of approving time sheets, and does not consist of verifying the actual payroll received to the employee time sheets. Since the system used to record and summarize the payroll may be changed throughout a pay period, there is risk that the system could be circumvented and remain undetected by management.

We further noted the condition remains that the accountant for nonappropriated funds has incompatible duties. His responsibilities include
purchasing, writing checks, recording transactions and reconciling bank statements. The lack of checks and balances increases the risk of undetected improprieties.

Our review of the purchasing/receiving functions at the prison indicated that the person(s) responsible for ordering goods and services is also responsible for receiving them and attesting to the business office the propriety for making payment. Having only one person performing these three duties creates a risk that errors or improprieties could occur with little chance of detection. This risk is increased by the institution’s purchasing procedures. While reviewing these procedures we noted purchases from many vendors who are not on the lists of vendors awarded purchase contracts by the Department of the Treasury. Our analysis shows East Jersey making more than double this type of purchase than other similar sized New Jersey prisons. Management informed us they do not stockpile supplies, etc. but purchase on an as needed basis. Treasury Circular Letter 96-23G-GSA requires agencies to “purchase commodities and services through state contracts, the distribution center, the bureau of state use and the central nonprofit agency in order to ensure propriety and the effective use of state resources.”

During the past several years, administrative staffing levels have been reduced. This created a condition where proper segregation of duties became difficult. The administration’s priorities became functional in nature and internal controls were not re instituted into the environment as a part of the operational routines.

**We recommend that** review and approval procedures for payroll include not only time sheet review, but that the final payroll report be audited to lessen the risk that errors or irregularities could occur and remain undetected. In addition, the duties of payroll preparation and distribution should be segregated.

**We also recommend** the administration review its procedures and involve as many employees as feasible to segregate the ordering, receiving, approving and reporting functions. Further, the nonappropriated accounts’ bank statements should be reconciled by persons who are not authorized to make expenditures from the accounts.

**We further recommend** that more effort be made to comply with state purchasing regulations. That other state agencies be used when possible and vendors with state contracts be used when feasible.
November 7, 1996

DEPARTMENTAL RESPONSE

Mr. Richard L. Fair
State Auditor
Office of Legislative Services
Office of the State Auditor
CN 067
Trenton, NJ 08625-0067

Dear Mr. Fair:

I have reviewed the final report prepared by your office summarizing the audit of East Jersey State Prison (EJSP), covering the period of July 1, 1994, through April 30, 1996. The Department concurs with each finding included in the report. I have been advised by the institution's Administrator that actions have been taken to comply with many of the auditor's recommendations. The following responses have been developed based on information submitted by the Administrator.

Operational Efficiencies and Cost Controls:

The Department's FY 1997 budget was reduced by $1,000,000 based on the proposed elimination of seventeen storekeeping positions through commissary privatization. The Department is pursuing development of a Request for Information (RFI) and Request for Proposal (RFP) for privatization of inmate commissary operations at several facilities within the Department. An alternate savings proposal is also being developed for consideration. If implemented, this alternative would increase commissary revenues which would be utilized to offset inmate commissary program salary costs.

As indicated in your report, the one-half hour overtime granted custody personnel is required by the existing union contract which was negotiated by the Governor's Office of Employee Relations. The Department's input and control over such negotiations are extremely limited. The Department has, however, referred this matter to the Office of Employee Relations for consideration. Resolution of this finding is contingent upon that Office's consideration of your recommendation and the results of future contractual negotiations.

Richard L. Fair
Internal Controls - Segregation of Duties:

The final payroll report, from which paychecks are issued, is now reviewed and approved in its entirety by the Supervisor of Payroll. The duties of payroll preparation and distribution of paychecks have been segregated.

The ordering, receiving, approving and reporting functions have been segregated. Nonappropriated accounts’ bank statements are now being reconciled by a person who is not authorized to make expenditures from the account.

Standardization of the Department of Corrections menu now requires utilization of food products available from state sources. Implementation of the standard menu has greatly reduced overall expenditures by EJSP to non-contract vendors. Personnel responsible for procurement receive on-going training and emphasis on compliance with state purchasing regulations. This includes regularly scheduled institutional administrative staff meetings and continuing distribution of notices of award (NOA) received from the State of New Jersey, Department of the Treasury.

Sincerely,

William H. Fauver
Commissioner

c Chief of Staff Hilton
Assistant Commissioner Maurer
Director Wadis
Administrator Pinchak
Business Manager Guz
Chief Rebovich