New Jersey State Legislature
Office of Legislative Services
Office of the State Auditor

Department of Corrections
East Jersey State Prison

July 1, 2005 to June 30, 2007

Richard L. Fair
State Auditor
The Honorable Jon S. Corzine  
Governor of New Jersey

The Honorable Richard J. Codey  
President of the Senate

The Honorable Joseph J. Roberts, Jr.  
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, East Jersey State Prison for the period of July 1, 2005 to June 30, 2007. If you would like a personal briefing, please call me at (609) 292-3700.

Stephen M. Eells  
Assistant State Auditor  
June 23, 2008
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Department of Corrections  
East Jersey State Prison

Scope

We have completed an audit of the Department of Corrections, East Jersey State Prison for the period July 1, 2005 to June 30, 2007. Our audit included financial activities accounted for in the state’s General Fund. We did not audit inmate medical expenditures since they are included in a separate departmental audit conducted recently by our office. We also reviewed the internal controls and bank reconciliations of the Inmate Trust Fund. However, our audit did not include the financial transactions from the Welfare and Commissary Funds since they are audited by the department’s internal auditors. The prime responsibility of the East Jersey State Prison is to provide custody, care, discipline, training, and treatment to 1,900 inmates. Fiscal Years 2006 and 2007 annual expenditures for the prison were $69.4 million and $74.6 million, respectively.

Objectives

The objectives of our audit were to determine whether financial transactions were related to the prison’s programs, were reasonable, and were properly recorded in the accounting systems. We also tested for resolution of the significant conditions noted in our prior report dated November 16, 2001.

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 Department of the Treasury, and policies of the prison. Provisions that we considered significant were documented and compliance with those requirements was verified.
by interview, observation, and through our samples of financial transactions. We also read the budget message, reviewed financial trends, and interviewed prison personnel to obtain an understanding of the programs and the internal controls.

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. Transactions were randomly and judgmentally selected for testing.

**Conclusions**

We found that the financial transactions included in our testing were related to the prison’s programs, were reasonable, and were properly recorded in the accounting systems. In making this determination, we noted certain internal control deficiencies over the Inmate Trust Fund, the department’s Offenders Management System (iTAG), purchasing of inmate meal tickets and employee sick leave usage meriting management’s attention. In addition, we found that the prison had resolved all significant issues noted in our prior report.
Inmate Trust Fund

As custodian of the Inmate Trust Fund (ITF), the business office has a fiduciary responsibility for establishing internal controls and accounting procedures that will protect against fraud, ensure the proper recording of transactions, require accurate monthly bank reconciliations, and maintain adequate segregation of duties. In addition, the Department of Corrections' (DOC) fiscal management is responsible for monitoring the ITF's financial reporting activities and to provide managerial assistance to the business office. The ITF has an average checking account balance of $377,000 and disburses 11,500 checks totaling $2.9 million annually. Our review of the ITF showed the following deficiencies related to internal controls and accounting procedures.

Bank reconciliations are inadequate and untimely.

The checking account has not been reconciled to monthly bank statements timely. According to DOC's internal management procedures, monthly reconciliations should be completed within ten business days after receipt of the bank statement. The bank reconciliations we tested were completed as much as five months late. Bank reconciliations became problematic after the former accountant who reconciled the bank statements transferred to another state agency in September 2006. Our review of the prison's six monthly bank reconciliations from March 2007 to August 2007 disclosed adjustments ranging from $4,000 to $84,000 that were not substantiated. Incomplete monthly reconciliations do not provide reasonable assurance that all cash receipts, disbursements, and balances are accounted for appropriately.

The Inmate Trust Fund, (ITF) includes an account entitled the Inmate Release Fund (IRF), which is a $700 imprest cash fund. The imprest fund is replenished approximately 22 times a year. An inmate, upon release, will receive his entitled savings up to $100 in cash from the IRF and the remainder by an ITF check.

Internal controls over the Inmate Release Fund need strengthening.
Our cash count of the IRF revealed $74 was unaccounted for and/or missing. Since there was no evidence of periodic independent reconciliations, we could not determine when the $74 became unaccounted for and/or missing. In addition, the written control procedures over the IRF are inadequate. The Business Manager does not vouch to sign inmate release receipts that are generally witnessed by a custody officer when replenishments are made to the IRF.

Dormant inmate accounts are not being escheated timely.

Generally, after one year of dormant activity, unclaimed saving accounts from released inmates are to be escheated annually to the State Treasury in accordance with DOC Accounting Bulletin No. 03-22. As of October 2007, $17,000 from 512 inmates was not escheated. The last escheatement to the State Treasury occurred July 2002. Dormant inmate accounts have a high risk for fraud and should be escheated timely.

Month-end system closures are not performed.

The last month-end iTAG system closure occurred October 1999. The purpose of a monthly closure is to prevent unauthorized transactions from occurring prior to the close-out dates. The lack of timely monthly transaction closures increases the risk of improper retroactive adjustments to previous period financial statements.

The business office was three months late in submitting annual financial statements for the fiscal year ending June 30, 2007 to the Department of Corrections. These financial statements were due by August 30, 2007.

Recommendation

We recommend that the prison:

- reconcile monthly bank statements timely, substantiate all adjustments, close financial transactions monthly, and submit annual financial statements to the department timely,
• establish and enforce written control procedures over the Inmate Release Fund, including vouching inmate receipts and performing periodic reconciliations of the imprest fund, and

• escheat dormant inmate funds to the State Treasury timely.


\[\text{System enhancements are needed over access security and financial reporting.}\]

**Offender Management System**

The business office relies on system and reporting enhancements of the Offender Management System (iTAG) in order to process and secure inmate banking transactions effectively and efficiently. We found the following deficiencies in iTAG that impact the financial operations of the business office.

Due to the volume of inmate banking transactions, preparation of a monthly bank reconciliation is a tedious and complex process. The iTAG monthly bank reconciliation external report lacks a "cleared checks and cleared deposits listing". In addition, when the reconciliation report is reprinted unreconciled iTAG system differences, "bank versus book", are disclosed in error. Therefore, the report cannot be used as a monitoring tool by the department’s fiscal management.

External financial reports do not have creation dates on iTAG for each recorded financial transaction, although this field is in the system. Creation date compared to the existing accounting transaction date provides a complete audit trail and also a monitoring tool for reviewing the timeliness of processed transactions. In addition, creation dates would simplify monthly bank reconciliations when comparing bank transactions to the general ledger and/or check register.
Due to the number of check disbursements, checks are printed with computerized digital signature endorsements of the Business Manager. In our review of the financial security access profiles of iTAG, we found that the entire business office staff, 16 employees, have the ability to print checks. The number of employees with this capability should be limited. This weakness increases the risk that errors and irregularities may occur without being detected by management. The financial security profiles of business office staff have not been reevaluated since 1998. The department has the ability to improve system access and segregate controls by modifying the financial security profiles.

There are no inmate banking digital signature cards on iTAG which would increase the authentication of inmate signatures on inmate release disbursement documents. We also noted there are no customized iTAG reports for detecting questionable inmate release disbursements. Creating a customized iTAG report such as a comparison of inmate release dates to the check dates would increase monitoring by management and assist in detecting improper withdrawals.

We recommend that the Department of Corrections implement the following enhancements to iTAG:

- Modify monthly bank reconciliation reports to include a cleared checks and cleared deposits listing.
- Provide creation dates in financial transaction reports.
- Limit the number of business office staff who have check printing capability.
- Provide digital inmate signatures.
- Create inmate release detection reports.
Inmate Meal Tickets

The prison has been purchasing inmate meal tickets, costing $14,000 annually. Since fiscal year 2006, we found that the prison has not complied with state regulations for the purchase of these meal tickets. The prison purchased the meal tickets from a printing company without receiving competitive bids. The last six-month shipment of meal tickets, through June 2008 costing $7,000, was received without an authorized purchase order as required by state purchasing regulations. In addition the prison did not solicit services from their own department’s internal print shop. The print shop is capable of printing meal tickets at $4,000 which results in annual savings of $10,000. We also found a related party transaction and an ethics violation because a state correctional employee is a corporate officer and/or owner of this printing company. The necessity of inmate meal tickets is questionable since it is not a uniform practice of the department. The department discontinued the issuance of inmate meal tickets and is investigating all purchases made to the printing company.

Recommendation

We recommend that the department reevaluate the necessity of using inmate meal tickets. If there is justification for using inmate meal tickets, we recommend that the prison adhere to state purchasing regulations.

Sick Leave Usage

Attendance related problems such as excessive use or abuse of sick leave result in unnecessary overtime. Each eligible employee is allotted 15 sick days annually and may carry forward balances to the following year. DOC, Human Resources Bulletin 84-17 states, “Employees who are absent an aggregate of 15 days in a calendar
year shall be required to submit a doctor’s verification of illness for all future absences of sick leave during that calendar year...” In addition, the prison may require proof of illness or injury when there is a reason to believe that an employee is abusing their sick leave.

The regional personnel unit may dock a day’s pay from an employee’s paycheck if the employee fails to furnish a doctor’s note for a sick day. The regional personnel unit, located at East Jersey State Prison, delegates the requesting of doctors’ notes to internal department heads. During calendar year 2006 the prison paid $380,000 for sick days used in excess of 15 days to 233 of the 755 employees. Our test of 50 of these employees disclosed 60 percent had not furnished doctor’s notes or authorized family leave documentation. The regional personnel unit could not dock employee paychecks for excessive unauthorized sick usage because there was no enforcement in the collection of doctors’ notes.

**Recommendation**

Since the regional personnel unit is independent from the prison’s organizational structure, it would be more effective if the regional personnel unit enforces the sick leave policy by requesting doctor’s notes from employees instead of delegating the enforcement to each internal department head.
May 29, 2008

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

Dear Mr. Fair:

I have reviewed the audit report prepared by your office summarizing the audit of the Department of Corrections, East Jersey State Prison (EJSP) for the period July 1, 2005 to June 30, 2007. I appreciate this opportunity to respond to its findings and recommendations.

**Inmate Trust Fund**

- **Reconcile Monthly Bank Statements**
  Staff at EJSP has been able to stabilize the difference in the cash account. This will enable staff to begin the research necessary to resolve the previously reported differences. We have asked staff at our Central Office to assist with the resolution of the reported differences. Until the cash account is completely reconciled EJSP staff will be required to submit copies of their monthly bank reconciliations to our Bureau of Accounting and Revenue for review and approval.

- **Written Control Procedures for the Inmate Release Fund**
  Written procedures have been prepared for the Inmate Release Fund as recommended. Inmates being released will be given up to $100 in cash and the remainder in the form of a check. All inmates being released during the week and weekends will be required to sign a receipt for the funds received and their receipt of the funds will be witnessed by an employee that does not work in the Business Office. The signed receipts will be taken to the Business Office daily and the fund will be reconciled daily.
Escheat Inmate Funds
The unclaimed funds have been identified and all funds unclaimed for one year or more will be escheated by June 30, 2008. In the future the unclaimed funds will be escheated annually in accordance with N.J.S.A. 46:30B-41.2.

Offender Management System

Modification of Monthly Bank Reconciliations
The iTAG system does have a report identified as the Bank Cleared Checks report which lists the checks and deposits that were cleared for the requested bank reconciliation date.

Creation Date in Financial Transactions Reports
The system currently does have a General Ledger transactions table that stores all the transactions for the Inmate Trust Fund and Commissary operations with fields for creation date. A transaction report can be developed in-house that not only provides the transaction date, but also the creation date. This will assist in identifying those transactions that have been backdated. Additional funding is not required; however this enhancement would need to be prioritized so that development staff may be assigned.

Limit Access to Check Printing
Staff in our Office of Information Technology has begun the preliminary steps to create separate profiles for Business Office staff which will limit access to check printing. We expect this new profile to be completed by July 2008.

Digital Inmate Signatures
The inmates currently sign for their funds at release and the inmate signatures are witnessed by a custody officer or business office staff person. We will increase the compliance to ensure inmates being released sign for the funds received, and individuals providing the funds to the inmate sign the release form witnessing that the inmate received the funds at release. With the continued decrease in funding, we are not certain if the additional benefits derived from digital inmate signatures would outweigh the vendor’s cost to develop the enhancement.

Create Inmate Release Detection Report
We intend to print a monthly report of the Inmate Release Account No. 1021. The iTAG report will identify all cash withdrawals from the fund and the inmates receiving those funds. At the end of each month a staff member of the Business Office will be responsible to verify that inmates released that month have received their cash at release, signed the inmate cash release receipt, received the balance of their account in the form of a check and the inmate’s account has been closed.
Inmate Meal Tickets
The use of meal tickets by the inmates in the main institutions was discontinued on or about February 11, 2008. Because the purchase of the meal tickets was found to be from an undisclosed related party, the matter was considered an ethics violation and referred to our Special Investigations Division for further review and disposition. Since food is one of our largest non salary accounts, management at the institution is exploring other options to control inmates coming through the meal line more than once.

Sick Leave Usage
The department’s current sick leave policy is more stringent than required by the NJ Administrative Code Title 4A. With the continued reduction in staff resources, the ability to monitor compliance in accordance with the current policy has become unattainable. As a result, we are considering a policy change which will relax our sick leave policy and bring it into alignment with the Administrative Code. The code 4A:6-1.4(d), states “An appointing authority may require proof of illness or injury when an employee has been absent on sick leave for an aggregate of more than 15 days in a 12 month period.” Our current policy will be amended to require the submission of medical documentation to match these circumstances.

In closing, I would like to thank your audit staff for their continued diligent work, and professionalism exhibited during the audit. I have always found their recommendations to be meaningful and we at the department appreciate their efforts.

Sincerely,

George W. Hayman
Commissioner

c:  Peter T. Roselli, Deputy Commissioner
     James Barbo, Acting Deputy Commissioner
     Carmella M. Elmer, Assistant Commissioner
     Kathy Baker, Director
     Mike Power, Administrator
     Joseph Haines, Supervising Management Improvement Specialist