Department of Corrections
Bayside State Prison

July 1, 1996 to February 27, 1998
Enclosed is our report on the audit of the Department of Corrections, Bayside State Prison for the period July 1, 1996 to February 27, 1998.

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

Richard L. Fair
State Auditor
March 31, 1998
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Department of Corrections
Bayside State Prison

Scope

We have completed an audit of Department of Corrections, Bayside State Prison for the period July 1, 1996 through February 27, 1998. Our audit included financial activities accounted for in the state's General Fund and nonappropriated funds.

Annual expenditures of the facility are $52 million. The prime responsibility of Bayside State Prison is to provide custody in a minimum and medium facility for adult male offenders.

Objectives

The objectives of our audit were to determine whether financial transactions were related to the facility’s programs, were reasonable and were recorded properly in the accounting systems. We also tested for resolution of significant issues 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. 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.

To ascertain the status of findings included in our prior report, we identified corrective action, if any, taken by the facility 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 internal control weaknesses and matters of compliance with laws and regulations merits management’s attention.

We also found that the agency has not resolved a significant issue noted in our prior report. This issue has been updated and restated in our current report.

**Auditee’s Response**

The department has been advised that the lack of segregation of duties in the procurement, receipt and payment processes is a pervasive problem at various institutional business offices. Our response therefore to the conditions noted in your report regarding the lack of segregation of duties at Bayside State Prison will address this problem on a department wide basis.

The lack of segregation of duties between the procurement, receipt and payment processes is primarily attributed to the current level of staffing of institutional business offices. The department is however, pursuing several initiatives, including automation of the inmate canteen ordering process which will increase the efficiency of existing staff. Automation will result in a significant reduction of staff-hours in the labor intense, manual data entry of inmate orders. It is anticipated that the automated system will be implemented by July 1998, at which time business office staff will be re-deployed to assist in procurement duties.
A lack of segregation of duties for purchasing increases the risk that errors and improprieties can go undetected.

Recommendation

We recommend that bids or quotes be obtained and vendors be selected by the business office. All packages received should be opened and their contents verified by an individual other than the one determining the need.

Auditee’s Response

The institution’s business office will expand their participation in the procurement process. Business office staff currently obtain all written bids for purchases of $2,500 or more. Review of all telephone quotes for requests of $1,000 or more is being added to their duties. This will allow review of approximately 75 percent of expenditures under Direct Purchase Authority.

As recommended, all deliveries for Bayside State Prison will be received and inspected in the institution’s warehouse. Deliveries for the Ancora Unit will be made directly to that unit and inspected by someone other than the individual determining the need.
Internal Controls - Nonappropriated Funds

Inmates’ Trust Fund

The business office maintains the Inmates’ Trust Fund to account for the assets of the inmate population. Our review noted that monthly reconciliations of the subsidiary ledgers to the control ledger, a basic accounting control procedure, are not being performed. The business office is aware of a long-term difference between the two records which was $8,000 as of January 31, 1998. However, because monthly reconciliations are not performed the business office can not attest to whether the difference remains constant. The review also noted that accounting controls such as signing checks, reconciling to the bank records and preparing financial statements are the responsibility of one employee. Having one employee responsible for all three functions further increases the risk of errors and irregularities going undetected.

Recommendation

We recommend that management segregate the accounting control duties. We further recommend that monthly reconciliations of the two records be performed and an effort to correct the difference between the control and subsidiary records be made.

Auditee’s Response

In response to the auditor’s recommendation to segregate accounting controls, please be advised that the business office subsequently filled a vacant position (March 23) to staff certain accounting functions and to achieve the appropriate segregation. This action will enable the business office to address the lack of segregation of accounting controls noted in the Bayside Industries and Inmate Canteen Fund sections of your report.

The business office will continue to perform monthly reconciliations and will promptly investigate and resolve differences disclosed through the reconciliation process. It should also be noted that the business office has identified transaction errors which account for a majority of the $8,000 difference reported as of Janu-
Management should establish operating expectations and a means to monitor operating results to meet its oversight responsibility.

**Bayside State Industries Fund**

The Bayside State Industries Fund is an enterprise run by staff using inmate labor. The projects are woodcutting, recycling, car washes, upholstery and horticulture. A recent review by the internal audit unit of the Department of Corrections noted improprieties and control weaknesses. Our review noted that although management implemented the recommendations of the audit unit, several control weaknesses remain.

Management has not established procedures to monitor operating results. Expectations of operating results and financial statements are needed for management to meet its oversight responsibility.

Our review noted that the accounting controls, such as signing checks, reconciling to the bank and preparing financial statements are the responsibility of one employee. Also, one employee can initiate a purchase, select the vendor and prepare a receiving report that initiates payment. Having one employee responsible for all functions within a task increases the risk of errors and irregularities going undetected.

We also noted that not all applicable costs of operations are charged to the fund resulting in a state subsidy of the operations.

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<th><strong>Recommendation</strong></th>
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<td>We recommend that management segregate the duties within the fund; establish procedures to monitor operating results, and charge all appropriate costs of operations to the fund.</td>
<td>The department has been assured by institution management that quarterly financial statements will be prepared and compared with operation expectations to...</td>
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monitor programs effectiveness. It should be noted that the Upholstery and Car Wash programs were terminated in September 1996. With the exception of custody salaries, all operating costs including inmate wages will be charged to the fund. It has been the department’s policy to charge the cost of custodial supervision of inmate work programs to state appropriations. Alternate opportunities for custody staffing costs related to industry programs will be explored.

Inmates’ Canteen Fund
The Inmates’ Canteen Fund is maintained by the business office to account for sales, cost of goods sold and expenses of the commissary run for the inmates. Our review of costs noted that employee and inmate salaries are charged to state appropriations rather than the fund. We estimate personnel costs to be $150,000 annually. The practice of excluding these costs from operating expenses is contrary to the department’s current policy of making inmates participate in the funding of some of their incarceration costs.

Our review also noted that accounting controls such as signing checks, reconciling to the bank, and preparing financial statements are the responsibility of one employee. Having one employee responsible for all three functions increases the risk of errors and irregularities going undetected.

Recommendation
We recommend that management consider the salary cost of the commissary under their policy of inmates participating in the funding of their incarceration costs. The degree of inmate participation in the funding of these costs could be achieved through price adjustments. In addition, the accounting control duties should be segregated.

Auditee’s Response
The department is in the process of establishing dedicated accounts in the New Jersey Comprehensive Financial System (NJCFS) for the various institutional commissaries (Inmate Canteen) and will charge the appropriate staff salaries to those accounts. Further
analysis of Inmate Canteen funds will be performed to determine the feasibility of charging inmate wages to the dedicated accounts.

Appropriations are being used to subsidize the Welfare Fund.

Welfare Fund
The purpose of the Welfare Fund is to meet the general needs of the inmate population. Recreational equipment and family day affairs are examples of appropriate uses. The principal revenue source of the fund is the profits of the Inmates’ Canteen. Management prepares an annual budget that addresses estimated resources and the ending balances for fiscal years 1995 to 1997 averaged $66,000. These balances, excessive compared to other facilities, are due to not all of the budgeted projects being initiated and estimated revenues often being understated. Our review of fiscal year 1997 appropriation expenditures noted approximately $50,000 of purchases that could have been charged to the fund. The utilization of inmate generated resources to meet the costs of incarceration fosters the Department of Corrections’ policy of financial participation by inmates.

Recommendation
We recommend that management periodically review the activity and balance in the fund and amend plans as needed to utilize the resources of the Welfare Fund.

Auditee’s Response
The department has been assured by the institution’s management that the Business Manager will review all requests for purchases of inmate related educational and recreational commodities to ensure the maximum use of the Welfare funds.