Office of the State Auditor

Audit Report

Department of Corrections

Riverfront State Prison

July 1, 1993 to April 30, 1995
# Department of Corrections

## Riverfront State Prison

### Audit Report

#### Table of Contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transmittal Letter</td>
<td>1</td>
</tr>
<tr>
<td>Scope</td>
<td>3</td>
</tr>
<tr>
<td>Objectives</td>
<td>3</td>
</tr>
<tr>
<td>Methodology</td>
<td>3</td>
</tr>
<tr>
<td>Conclusions</td>
<td>4</td>
</tr>
<tr>
<td>Findings and Recommendations</td>
<td></td>
</tr>
<tr>
<td>Nonappropriated Funds</td>
<td>5</td>
</tr>
<tr>
<td>Internal Controls - Appropriated Expenditures</td>
<td>7</td>
</tr>
<tr>
<td>Payroll</td>
<td>9</td>
</tr>
<tr>
<td>Operational Costs</td>
<td>10</td>
</tr>
<tr>
<td>Fixed Assets</td>
<td>12</td>
</tr>
<tr>
<td>Departmental Response</td>
<td>13</td>
</tr>
</tbody>
</table>
We have completed an audit of the Department of Corrections - Riverfront State Prison for the period July 1, 1993 to April 30, 1995.

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. However, we did note areas where improvement is needed. Internal controls should be strengthened to provide reasonable assurance that management's objectives are achieved and to reduce the risk of errors or irregularities occurring and remaining undetected in the records of the prison. We also noted areas where operating economies can be achieved by the prison. 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 1.6 of the State Constitution and Title 52 of the New Jersey Statutes.

Richard L. Fair
State Auditor
Department of Corrections
Riverfront State Prison

Scope

We have completed an audit of the Department of Corrections - Riverfront State Prison for the period July 1, 1993 to April 30, 1995. Our audit included financial activities accounted for in the state's General Fund and in the prison's nonappropriated accounts.

Total General Fund expenditures of the agency during the 22 month audit period were $55.5 million. The prime responsibility of Riverfront State Prison is to provide custody and care to inmates incarcerated at this location.

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 1.6 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 selected judgmentally based on analytical procedures and large dollar transactions were reviewed. Other transactions were randomly selected.

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 were 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 prison.

We also found that the agency has not resolved significant issues noted in our prior report. These matters relate to nonappropriated accounts, prompt payment, compensatory time and fixed assets. These issues have been updated and restated in our current report.

Details of our findings and recommendations follow.
Nonappropriated Funds

Finding

The prison maintains various nonappropriated funds for the benefit of the inmate population. These funds are accounted for separately from the state accounting system and include the inmates’ welfare, canteen and trust funds. The prison maintains these funds in one bank account using the department’s System 36 inmate banking module. Our review of bank statements disclosed that approximately $2.6 million in receipts and disbursements were transacted during the audit period. The prison has significant risk over these funds due to the absence of reconciliations, proper management controls and other internal control weaknesses noted during our current and prior audits. These controls are necessary to ensure the integrity of bank and checkbook balances and to detect errors and irregularities on a timely basis.

Our prior report noted that bank reconciliations were not up to date and that there was a difference between inmates’ subsidiary records and the checkbook. Our current audit disclosed that the prison's business office did not perform monthly bank reconciliations for 17 of the 22 months in the audit period, nor did the department's central office monitor the activity in these accounts to ensure that reconciliations were current. Department of Corrections Accounting Bulletin 90-5 requires prisons to perform monthly bank reconciliations. In addition, an unreconciled difference of more than $131,000 existed between the checkbook and inmates’ subsidiary records at April 30, 1995. This was due to accounting errors that occurred and were not detected by timely reconciliations. We have apprised management of the nature and amount of errors noted during our review and have accounted for the majority of the unreconciled difference.

There was also a lack of segregation of duties over the maintenance of the nonappropriated funds in that the same person prepared and entered checks, entered deposits and initiated inmates’ payroll. This person also received and filed the monthly bank statement and canceled checks and was responsible for performing bank reconciliations. We also noted a lack of segregation of duties in that any employee who orders goods may select the vendor, count the goods received and sign the receiving report for the inmates’ canteen.

In addition, we noted that the prison's business office did not adequately monitor the balances in the inmates' accounts. Our review of the current inmates’ trust fund payroll receivable account disclosed that the balance included amounts due for pay periods as early as August 1993. These unreimbursed payrolls totaled $151,000 at April 30, 1995. The prison did not disburse or encumber monies from the state appropriation that provides for the inmates’ payroll. Any available balance in that
appropriation was transferred to other accounts at the end of fiscal year 1994 and therefore payment will have to be made from fiscal year 1996 appropriations. The annual appropriations act makes funds available only for expenses incurred in the said year of the act.

**Recommendations**

We recommend that the Department of Corrections implement and enforce monitoring procedures that would include assurances that monthly bank reconciliations and monthly reconciliations of inmates’ subsidiary records to bank assets are performed by the prison. Such procedures should also include monthly monitoring of the inmates’ payroll receivable. We also recommend that the prison segregate duties over the record keeping and reconciliation functions.
Internal Controls - Appropriations Expenditures

Finding

Appropriations expenditures for nonpayroll costs were approximately $16.6 million for the period under review. We noted various internal control weaknesses in the purchasing and payment cycle. These weaknesses included a lack of segregation of duties in that any employee who ordered goods could select the vendor, count the goods received and sign the receiving report. We also noted inadequate management review by the business office of appropriation expenditures. A strong system of internal control is necessary to decrease the risk that errors will occur and not be detected by management. Specifically we noted the following:

< Approximately $4,600 was expended for prompt payment deficiency during the period and more than $25,000 was lost in discounts to one vendor due to untimely processing of payment vouchers.

< Complete supporting documentation was not readily available in 11 of 100 sample items.

< Expenditures were classified in an improper appropriation account in 12 of 100 sample items.

< Expenditures were classified in a subsequent fiscal year's appropriation in 11 of 100 sample items. The appropriations act makes amounts available only for expenses incurred in the said year of the act.

< Expenditures were made for an improper amount in 13 of 100 sample items. Six of these instances included duplicate payments totaling $155,000.

< Prior business office approval was not indicated on the prison's purchase request form in 32 of 44 applicable sample items.

< Eleven of 51 medical services providers tested were not on the department's medical services waiver nor was there evidence of competitive bidding for their services. State procurement guidelines require bidding for purchases in excess of $150.

Recommendations

We recommend that the prison implement and enforce strong internal controls over processing of appropriations expenditures that would ensure that transactions are
accurate, timely, properly classified in the state’s financial system and in accordance with state procurement guidelines. We also recommend that the prison segregate the functions of ordering, counting the items received and signing the receiving report.
Payroll

Finding

Payroll and related costs were approximately $38.9 million during the review period. A proper system of internal control dictates that employees’ time be certified by a supervisor for assurance that time records are accurate and reliable. We noted that all fifteen employees’ time sheets in the prison’s food services section were not signed by a supervisor for a test pay period.

In addition, as also noted in our prior report, the prison is permitting employees to earn compensatory time in excess of the maximum allowed by Department of Corrections personnel bulletin 86-11. We noted that 23 individuals carried excess compensatory time during the review period. The accumulation of excess compensatory time could result in the need for additional overtime.

Recommendations

We recommend that the prison implement procedures that would prevent the processing of the biweekly payroll for employees whose time has not been certified by a supervisor. We further recommend that the prison comply with the department policy regarding the accumulation of compensatory time.
Operational Costs

Finding

During our audit of the prison we noted the following areas where economies can be achieved.

The prison expends approximately $300,000 per year for prescription drugs. Inmates are not charged for their prescriptions. Drugs were purchased, in bulk, from wholesalers under state contracts. The prison’s pharmacy was not being operated in accordance with Department of Corrections Standard 303 which requires that doctors dispense drugs under a written formulary system, and that the formulary be updated annually. More than 50 percent of the drug purchases tested in our sample contained items that were not included in the prison’s formulary. We further observed that the pharmacy inventory contained more than 80 drugs that were not in the formulary. A formulary is necessary to control drug costs, to provide standards and to minimize the risk of losses associated with experimentation and expiration.

We also observed that items being dispensed in the pharmacy were also available in the inmates’ canteen such as aspirin, sun tan lotion, cough medicine and a dietary supplement.

The prison operated a staffed infirmary which provided treatment for the inmate population. Medical expenses of the prison were approximately $2.2 million per year, excluding staffing costs. Inmates in the state system who need special medical care are often classified to this prison because of its infirmary and its proximity to major hospitals. Inmates requiring emergency care or treatment beyond the capabilities of the prison are transported to one of four major hospitals. Our review of hospital bills of inmates disclosed that only one of the providers had negotiated a per diem rate for inpatient services. The remaining providers billed the prison based on itemized costs which are higher. The lack of consistency between billing practices among medical providers, and the lack of competitive bidding resulted in a decreased opportunity for the prison to contain medical costs.

Custody personnel each receive one-half hour per day in overtime compensation for what the union contracts consider meal time breaks. We noted, however, that the administration actually uses this time as overlap in shifts by direct custody personnel in that one cannot leave his or her post until relieved by an incoming officer. We noted 60 posts that were not relieved on an incoming shift. The department is governed by current union contract restrictions for overlap compensation to those custody personnel that are not replaced by an incoming
shift. We estimate the extra overtime pay for the 60 posts to be approximately $327,600 per year.

Recommendations

A key role of management is the effective and efficient operation of an entity. We noted the need for management of the prison to establish procedures that address these and other issues under an ongoing cost containment review. Such a review could substantially reduce the facility's operating costs. Specifically we recommend that:

- The prison adhere to Standard 303.
- Nonprescription items be sold to inmates through the inmates' canteen.
- The prison negotiate a per diem rate with providers of inpatient care. In addition, the department should establish policies that would institute co-payments for medical care and prescriptions and would recover medical costs of inmates who are covered by medical insurance.
- During future contract negotiations, consideration be given to eliminating the daily one-half hour overtime payments for custody personnel assigned to duty posts which are not relieved by incoming shift employees.
- The department consider the utilization of local hospital pharmacies for prescriptions. Utilization of local facilities eliminates manpower costs in ordering, filling, and safeguarding items. It also allows the prison to order as needed and reduce the risks of storing controlled dangerous substances and losses due to expiration dates.
Fixed Assets

Finding

As noted in our prior audit, the prison is not in compliance with Treasury Circular Letter 94-05 regarding fixed assets inventory records. A review of the listing noted that the last addition to the listing was in 1991. We noted purchases of equipment costing more than $1,000 during the review period that were not included in the listing. Accurate fixed assets inventory records are necessary to fix stewardship and to assist management in locating surplus property.

Recommendation

We recommend that the prison update its fixed assets records as required by the Treasury Circular Letter 94-05.