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

Department of Corrections
Northern State Prison

July 1, 1995 to August 31, 1997

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, Northern State Prison for the period July 1, 1995 to August 31, 1997.

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

Peter M. Guilfoyle  
Assistant State Auditor  
November 17, 1997
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Department of Corrections  
Northern State Prison

Scope
We have completed an audit of the Department of Corrections, Northern State Prison for the period July 1, 1995 to August 31, 1997. Our audit included financial activities accounted for in the state’s General Fund. During our field work, management brought to our attention financial deficiencies in the inmate trust fund. Since the department’s internal audit unit scheduled an audit of this fund, we limited ourselves to a cursory review of this fund.

Total expenditures of the agency during the 26 month audit period were $137 million. The prime responsibility of Northern State Prison is to provide custody and treatment programs for male and female offenders.

Objectives
The objectives of our audit were to determine whether financial transactions were related to the prison’s programs, were reasonable and were recorded properly in the accounting systems. We also tested, if applicable, 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 facility. 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 facility 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.

Conclusions

We found that the financial transactions included in
our testing were related to the prison's programs,
were reasonable and were recorded properly in the
accounting systems except for the inmate trust fund.

In making this determination, we noted certain
internal control weaknesses and matters of compli-
ance with laws and regulations meriting manage-
ment’s attention. Our review also noted where
operating economies can be achieved by the prison.

Significant unresolved issues noted in our prior report
have been updated and restated in our current report.

Auditee’s Response

I have reviewed your audit report of Northern State
Prison (NSP) for the period July 1, 1995, through
August 31, 1997. I have been advised by the Institu-
tion’s Administrator that actions have been taken to
comply with many of the audit recommendations. I
appreciate this opportunity to respond to the findings
and recommendations included in your audit report.
High Operational Costs

Utilizing efficient practices can result in significant cost savings.

In our previous report, we addressed trash removal and household supplies costs which were high in relation to other comparable prisons. There have been no significant achievements made in reducing these costs to acceptable standards.

The prison’s $408,000 per year trash removal costs are the highest compared to all prisons within the department. The prison is not compacting all its trash which contributes to its high costs, as evidenced in the following chart.

<table>
<thead>
<tr>
<th>Housing Units</th>
<th>Annual Costs</th>
<th>Trash Hauled</th>
<th>Total Inmates</th>
<th>Annual Cost Per Inmate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minimum &amp; Admin. Segregation</td>
<td>$275,000</td>
<td>uncompacted</td>
<td>582</td>
<td>$473</td>
</tr>
<tr>
<td>Remaining Units</td>
<td>$133,000</td>
<td>compacted</td>
<td>2143</td>
<td>$62</td>
</tr>
</tbody>
</table>

The prison has an obligation to effectively utilize its financial resources. Our analysis indicates uncompacted trash costs seven times more than compacted trash. If the prison compacts all their trash, as done by other prisons, there will be a $240,000 annual cost saving.

Recommendation

We recommend that the prison compact all its trash. Additional trash compactors may be required, but the savings will more than cover these initial installation costs.

Auditee’s Response

The Institution’s Management is in the process of procuring trash compactors and installing the appropriate power sources to operate the equipment.
Accounting and record keeping deficiencies have jeopardized the reliability of the inmate trust fund financial records.

The prison maintains an inmate trust fund for the benefit of the inmate population. According to N.J.A.C. 10A:2-2.1, “The Business Manager of the correctional facility shall be responsible for maintaining inmate accounts and record keeping”. In our review of the fund, the following accounting and record keeping deficiencies were noted.

As of July 1997, management reported that liabilities exceeded assets by $171,000 (See management prepared summary below).

<table>
<thead>
<tr>
<th>Assets</th>
<th>Liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>Inmate Accounts</td>
</tr>
<tr>
<td>$29,000</td>
<td>168,000</td>
</tr>
<tr>
<td>Advanced Inmate Payroll</td>
<td>Due to Canteen</td>
</tr>
<tr>
<td>98,000</td>
<td>30,000</td>
</tr>
<tr>
<td>Total Assets</td>
<td>Work Release Maintenance</td>
</tr>
<tr>
<td>127,000</td>
<td>46,000</td>
</tr>
<tr>
<td></td>
<td>Other Liabilities</td>
</tr>
<tr>
<td></td>
<td>54,000</td>
</tr>
<tr>
<td></td>
<td>Total Liabilities</td>
</tr>
<tr>
<td></td>
<td>298,000</td>
</tr>
</tbody>
</table>

Unreconciled Difference $ (171,000)

The department recently assigned their internal audit staff to determine the causes of the unreconciled difference.

Monthly bank reconciliations have not been prepared since May 1995. These reconciliations can assist in identifying errors or irregularities. The inmate trust bank account was often overdrawn. Undocumented transfers from other fund bank accounts were made to offset the overdrawn amounts.

Due in part to the shortage of cash, $46,000 in work release inmate maintenance fees, collected in accordance with N.J.S.A. 30:4-91.4, were not remitted to
the state’s General Fund.

Monthly financial summaries were prepared by an office secretary. These summaries contained errors. The July 1997 summary, for example, erroneously reports a positive cash amount, whereas the ledger account balance indicates a negative (overdrawn) balance of $29,000. These financial summaries were relied upon by prison’s management and board of trustees. In addition, required annual financial statements were not prepared in a timely manner.

**Recommendation**

We recommend that the prison’s business manager reconcile and resolve the difference between reported assets and liabilities. Monthly bank reconciliations should also be performed. When sufficient cash balances are maintained, the prison should remit the $46,000 in work release maintenance fees to the state’s General Fund. In addition, we recommend that the department closely monitor the facility’s record keeping and reporting requirements.

**Auditee’s Response**

The Institution’s Business Office Staff is in the process of reconciling and resolving differences between reported assets and liabilities. Monthly bank reconciliations are being performed. Temporary services have been employed to assist in the reconciliation process.

In addition, the Department’s Internal Audit Unit is in the process of conducting an audit of NSP’s non-appropriated accounts, which include the Inmate Trust Fund. I have been assured that Work Release Maintenance Fees will be remitted to the State’s General Fund as soon as sufficient cash balances are available.

The Department will continue to closely monitor NSP’s record keeping and compliance with financial reporting requirements.

**Appropriation Transactions**
Procurement and payment procedural problems have resulted in added risk of wrongdoings and unnecessary costs to the prison.

There have been no significant internal control improvements addressing our previous audit report findings. Failure of management to institute necessary internal controls and monitor adherence to procedures exposes the prison to a higher risk that errors or wrongdoings could occur and remain undetected in the accounting system. The following internal control weaknesses need corrective action by management.

Segregation of Duties

In certain prison departments, the same person requesting the purchase of goods also receives the goods directly from the vendor. Independent verification of receipt is not obtained prior to vendor payment. Some of these prison departments have been found to be incurring unreasonable cost. The weakness in receiving controls results in a higher risk that errors and/or irregularities may occur without being detected timely. Someone other than the requisitioner should perform the receiving function.

Purchasing and Invoice Processing

Poor purchasing practices and untimely and improper processing of payment invoices continues to cost the prison thousands of dollars in penalties, lost discounts and overpayments. The prison continues to pay vendor invoices late. Untimely payments during fiscal year 1996 resulted in prompt payment interest penalty fees to vendors of $16,000. Although a noticeable improvement has reduced this amount to $1,600 for fiscal year 1997, the problem still persists. In addition, during a 15 month period, $8,400 in cash discounts were lost because the invoices were not paid within the discount period. A contributing factor of why vendor invoices are not paid timely is that internal departments are allowed to order goods or services before the business office issues an authorized purchase order.
We also noted in our testing of 40 sampled invoices, three overpayment errors totaling $6,400. These errors were made because contract term prices were not entered properly or overridden in the payment processing system. Management is in the process of recouping the overpayments from the vendors.

**Recommendation**

We recommend that management improve the internal controls over expenditures. Specifically, the controls and procedures should ensure that:

- Receiving functions are segregated from the requisitioner.
- Invoices are processed accurately and timely. The prison should give priority for invoices with eligible cash discounts.
- Authorized purchase orders are processed before ordering goods and/or services.

**Auditee’s Response**

Improvements have been implemented over the internal control process for expenditures. Specifically, the controls and procedures will ensure that:

- Receiving functions are segregated from individuals requesting the goods or services.
- Invoices will be processed accurately and timely. Priority will be given to invoices eligible for cash discounts.
- Authorized purchase orders will be utilized for the ordering of goods and services.