Office of the State Auditor

Audit Report

Department of Corrections

Adult Diagnostic and Treatment Center

July 1, 1994 to December 31, 1995
# Department of Corrections
## Adult Diagnostic and Treatment Center
### 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 Porrini
Executive Director
Office of Legislative Services

We have completed an audit of the Department of Corrections - Adult Diagnostic and Treatment Center for the period July 1, 1994 to December 31, 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 were inadequate in certain areas and in one area resulted in the appearance of impropriety. We also noted annual cost savings of $1.2 million, of which $1 million could be accomplished through a consolidation of services also being performed at the adjacent prison (East Jersey State 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
July 26, 1996

Department of Corrections
Adult Diagnostic and Treatment Center

Scope

We have completed an audit of the Department of Corrections - Adult Diagnostic and Treatment Center for the period July 1, 1994 to December 31, 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 18 month audit period were $31 million. The prime responsibility of Adult Diagnostic & Treatment Center is to provide custody and inpatient treatment services for adult male sex offenders.

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 issues noted in our prior report.

This audit was conducted pursuant to the State Auditor's responsibilities as set forth in Article VII, Section 1.6 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. All tested transactions were selected based upon analytical review procedures.
To ascertain the status of findings included in our prior report, 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 agency's programs, 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 outpatient services and fixed assets. These issues have been updated and restated in our current report.

Details of our findings and recommendations follow.

**Internal Controls - Appropriated Expenditures**

Management is responsible for establishing an internal control structure that will safeguard assets from potential loss or irregularity and ensure compliance with Treasury directives. We found that management had not instituted adequate controls in the following areas.

**Segregation of Duties**

Expenditures for goods or services were approximately $7 million for the period of review. Our review of purchasing procedures disclosed that an employee of an individual section can order, receive and initiate the payment process for goods and services. This lack of segregation of duties presents a potential for loss in that there is no independent source to verify that the goods or services ordered have been received or provided. In response to similar weaknesses noted in recent reports of other state correctional facilities, the Department of Corrections' Bureau of Audits and Accounts issued Accounting Bulletin 96-30. This bulletin states in part, "Goods ordered are to be received by an individual or unit other than that requesting the goods or responsible for payment. Ideally, all goods should be received in a central unit responsible for the receiving function".
Procurement Guidelines

Management circumvented Treasury Circular Letter 93-23 by splitting a single purchase into four payments of $3,472 totaling $13,888. Purchases exceeding the $10,000 "Direct Purchasing Authorization" limit are to be performed by the Department of the Treasury, Division of Purchase and Property to ensure propriety and the effective use of state resources.

Fixed Assets

As noted in prior audits, Adult Diagnostic & Treatment Center does not maintain fixed asset records in accordance with Treasury Circular Letters 91-32 and 94-05. These directives require that the facility maintain a fixed asset inventory system, perform an annual physical inventory and inform the Department of the Treasury of any major additions and deletions. Due to the lack of appropriate personnel, management has been unable to comply with these directives. As a result, the facility lacks adequate control over the use of its fixed assets.

Payroll

Payroll costs were approximately $23 million during the audit period. Our review of the internal control procedures noted a weakness in that the same person who prepares the payroll proofs used to create payroll checks, also receives the checks prior to distribution. We also noted that special service type time sheets with payroll costs totaling approximately $75,000 during the audit period were not approved by a supervisor. Approval is necessary to ensure that services were authorized and rendered.

We recommend that management:

C Strengthen internal controls by creating a receiving section independent of the ordering and payment functions.

C Comply with established purchasing regulations established by the Division of Purchase and Property.

C Update its fixed assets records as required by Treasury Circular Letters 91-32 and 94-05.

C Strengthen payroll internal controls by ensuring that the person preparing the payroll proof does not receive the checks.

C Require that all time sheets are approved by a supervisor.
Internal Controls - Nonappropriated Expenditures

The facility maintains various nonappropriated funds (inmates’ welfare, canteen, trust and six small clubs) for the benefit of the inmate population. These funds are accounted for using the department’s system 36 inmate banking module. There was $3 million in combined receipt and disbursement activity during the audit period. The following internal control weaknesses pose a risk to the assets of the funds and to the ability of management to detect errors and irregularities on a timely basis.

Monthly bank reconciliations for the inmates trust fund were not performed for the last five months of the audit period due to the absence of appropriate personnel. Department of Corrections Accounting Bulletin 90-5 requires prisons to perform monthly bank reconciliations.

There was also a lack of segregation of duties over the maintenance of the nonappropriated funds in that the same person has the responsibility for receiving funds, making deposits, record keeping and bank reconciliations. We also noted a lack of segregation of duties in that an employee can order and receive goods for the inmates’ canteen.

Recommendations

We recommend that management comply with Accounting Bulletin 90-5 by performing monthly bank reconciliations and providing proper segregation of duties within the nonappropriated funds.

Outpatient Examination Billings

N.J.S.A. 2c:47-1 states that “Whenever a person is convicted of the offense of aggravated sexual assault . . . the judge shall order that such person be referred to the Adult Diagnostic & Treatment Center . . . to complete a physical and psychological examination . . . .” Section 7 of this statute further states that “The commissioner shall determine and fix the per capita cost of examining and maintaining any person transferred to the Adult Diagnostic & Treatment Center for examination . . . .” and “ . . . the governing body of the county shall make provisions for payment of one-half of the cost thereof to the Adult Diagnostic and Treatment Center . . . .”

The Judicial Unification Act that went into effect in 1994 placed the responsibility for funding the county court systems with the state. The county court system is the governing body that is responsible to make provisions for payment of one-half of the cost of the physical and psychological examination as called for in N.J.S.A. 2c:47-1. Under these circumstances, the state is now billing and paying itself for one-half the costs of the examination. We feel that the circumstances have altered the intent of N.J.S.A. 2c:47-1,
and economies can be achieved by eliminating the costs of billing, payment, depositing and accounting for the transaction.

**Recommendation**

We recommend that the Department of Corrections and Judiciary consult with the Department of the Treasury about a more efficient means of handling the transaction. The review should include but not be limited to; budgeting the total costs at the Adult Diagnostic and Treatment Center, making a non-cash transfer of funds, or processing a one time year end payment.

**Operating Economies**

**Shared Services**

Adult Diagnostic & Treatment Center and East Jersey State Prison are both part of the Department of Corrections and their physical locations are adjacent to each other. Currently only food and payroll/personnel services are being shared. Because of their physical location they should be able to share services involving custody, administration, business office, education, maintenance and the canteen. We believe that there is a duplication of supervisory type positions whose costs exceed $1 million which can be eliminated without a negative effect on the custody and care of the inmates.

**Discounts Lost**

Management does not prioritize discount type invoices to take advantage of additional savings and economic efficiency when paying payment vouchers. For example, we noted lost discounts of $18,000 from two vendors.

**Contracted Services**

Management paid a contract vendor as a noncontract vendor for temporary employment services which is a violation of the Temporary Employment Services Contract and Treasury Circular Letter 93-23. This was done because the contract hourly rate for secretarial service was $13.25 and this temporary employee's hourly rate was $19.60. The facility could have saved approximately $15,000 if they paid the contract amount.

Management was not always using the most economical nursing service when hiring from the Temporary Nursing Service contract established by the Division of Purchase and Property. The facility hired a specific nurse who did not work for the most economical nursing vendor costing an additional $5,000 during the audit period.
Shift Overlap Overtime Compensation

The facility follows a union contract agreement which allows each correction officer to receive one-half hour per day overtime compensation in which the officer cannot leave their post until relieved by an incoming officer. Our review of the daily schedules disclosed that several positions are filled by correction officers who are not replaced by an incoming shift. Because the Department of Corrections is governed by the current union contract provisions, we estimate unnecessary overtime costs to be approximately $220,000 during the audit period.

Recommendations

We recommend that:

Management of the Department of Corrections consolidate services involving the two adjacent prisons.

Management of the center prioritize discounted invoices in the vendor payment process.

Management of the center follow the provisions of service contracts.

During future contract negotiations, consideration be given to eliminating the daily one-half hour overtime compensation for officers assigned to positions which are not relieved by an incoming shift.

Employee Overpayments

A state employee at Adult Diagnostic and Treatment Center was also a vendor at two other prison facilities. Our analysis of biweekly time sheets and vendor invoices revealed overpayments totaling $14,500. This individual was overlapping time, calling out sick as an employee and working as a vendor and subcontracting work. Management needs to develop a timekeeping procedure to prevent an employee or vendor from being compensated for time not worked.

Recommendation

We recommend that the Department of Corrections conduct an investigation and take appropriate disciplinary action if warranted. We also recommend that management of the center develop timekeeping procedures that will verify attendance and deter payment of unearned income.