Department of Corrections
Garden State Youth Correctional Facility

July 1, 1997 to April 30, 1999

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, Garden State Youth Correctional Facility for the period July 1, 1997 to April 30, 1999.

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

Richard L. Fair  
State Auditor  
August 3, 1999
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Department of Corrections
Garden State Youth Correctional Facility

Scope

We have completed an audit of the Department of Corrections (DOC), Garden State Youth Correctional Facility for the period July 1, 1997 to April 30, 1999. Our audit included the financial activities accounted for in the state’s General Fund. Our review did not include the nonappropriated funds nor revolving funds since these funds were the subject of a current DOC internal audit staff review.

Annual appropriations of the facility are $42 million. The prime responsibility of the Garden State Youth Correctional Facility is to provide for the security, education, training and treatment of adult offenders assigned to the various housing units within the facility.

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 system. We also tested for resolution of significant conditions noted in our prior audit 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 inter-
viewed agency personnel to obtain an understanding of the programs and internal control.

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 upon analytical procedures, and populations were stratified and large dollar transactions were examined. Other transactions were selected randomly or based on auditor judgment.

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 facility’s programs, were reasonable and were recorded properly in the accounting system. In making this determination, we noted certain internal control weaknesses meritng management’s attention. We also noted an area where operating costs could be reduced.

The facility has taken steps to resolve the significant issues noted in our prior report; however, additional consideration is needed. These issues have been updated and restated in our current report.
Internal Controls

Appropriation Transactions

Payroll Expenditures

Our prior audit report noted that the same employee could initiate a payroll check and also distribute the checks to employees. We also noted that prior employee’s names remained at zero pay status on the payroll register for periods of time. These conditions provide opportunities for erroneous payroll checks. Currently, management has established procedures to monitor the zero pay status of prior employees. However, segregating the processing of payroll from the distribution of payroll checks has not been addressed.

The payroll timekeeping system is based on employee maintained sign-in/sign-out time sheets, which are subsequently approved by their immediate supervisors. In addition, overtime forms are used to document supervisory approval of overtime and to facilitate the processing of payroll. Our testing of the system found that supervisors were not consistently signing the time sheets of noncustody employees and the food service department was not using overtime forms. Although overtime for food service employees was noted on their time sheet, the time sheets were not consistently signed by an immediate supervisor. These practices can result in unauthorized or inaccurate payroll expenditures.

Appropriation Expenditures

As noted in our prior audit report, an employee of a department can determine the need for goods/services, select a vendor, receive the goods/services, and initiate the accounts payable process. Our current review noted that management has initiated procedures that have the department head approving the transaction prior to the selection of the vendor. However, the same employee can solicit the bids/quote data that is used in the vendor selection process. Furthermore, we found that for the maintenance and food service
departments the above corrective procedure was not in effect; thus an employee can still initiate the need for goods/services, receive the goods/services, and initiate the accounts payable process.

**Recommendation**

We recommend that the duties of preparing the payroll register be segregated from the duties of payroll check distribution within the payroll department. We also recommend that management reinforce its policy that an immediate supervisor sign an employee’s time sheet. Food service employees should be subject to having overtime transactions approved by management on the overtime form used by the facility. We also recommend that management establish procedures to segregate the purchasing, receiving and accounts payable duties within the various departments.

**Auditee’s Response**

We concur with your recommendation regarding the segregation of duties to provide for stronger internal control. I have been advised by the Department’s Office of Human Resources that the lack of segregation in the payroll department is attributed to the shortage of staff resulting from two employees on extended leave. The weakness cited in your report will be resolved when the employees return to work. In the interim, the Office of Human Resources will implement alternative controls to reduce the associated risks until appropriate segregation of duties can be achieved. The Department’s Internal Audit Unit will provide technical assistance in implementing necessary controls and will monitor corrective actions to assure that the reported condition is resolved.

In response to the auditor’s recommendation related to time sheet authorization, the Department’s Office of Human Resources issued a memorandum to all institutional Administrators delineating supervisory responsibilities for signing time sheets and for documenting authorization of overtime.

Furthermore, management of the institution has advised that corrective actions will be taken to achieve appropriate segregation of duties. Management is developing a formal procedure to document
segregation of responsibilities for purchasing, receiving and accounts payable functions within the various operating units. In accordance with institutional policy, the Business Office reviews purchase requests and randomly selects requests to verify that authorized vendors are utilized and pricing is consistent with applicable contracts. To enhance this control procedure, individuals performing such reviews will be required to initial and date the purchase request to document each review.

Shift Overlap

Per the union contract, custody officers each receive twenty minutes per day in overtime compensation for a shift overlap because custody officers cannot leave a post until relieved by an incoming custody officer. The facility’s overtime costs for shift overlap for fiscal year 1998 were $1.1 million. We understand the safety needs of the shift overlap procedure; however, it is the responsibility of management to implement cost effective procedures to meet its objectives. Correctional facilities run 24 hours per day which requires 3 eight-hour shifts. The first and second shifts, requiring the most custody officers, currently result in the greatest shift overlap cost. Overtime costs could be reduced by scheduling the second shift to start 20 minutes earlier rather than retaining the first shift for 20 minutes of overtime. The same schedule would apply to the next shift change except the third shift’s schedule would be advanced 40 minutes, thus eliminating the second shift’s overlap cost. In order to realize the maximum cost savings, when the third shift is replaced by the morning (first) shift it would be necessary to retain the third shift for 20 minutes rather than scheduling the first shift to report early. Although this rescheduling would result in one hour overtime for the third shift officers it would eliminate shift overlap costs for the significantly larger first and second shifts. We estimate that this rescheduling would result in a 50 percent reduction in shift overlap cost. The overtime for the last shift could also be
viewed as a shift differential and be an incentive to work the least desirable shift. The savings could be enhanced as the amount of time needed for the shift overlap is decreased. Below we have illustrated a sample schedule with the corresponding number of correction officers on each shift.

<table>
<thead>
<tr>
<th>Shift</th>
<th>Hours Paid</th>
<th>Positions</th>
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<tbody>
<tr>
<td>1st 6am to 2pm (8hrs reg. time)</td>
<td>187</td>
<td></td>
</tr>
<tr>
<td>2nd 1:40pm to 9:40pm (8hrs reg. time)</td>
<td>145</td>
<td></td>
</tr>
<tr>
<td>3rd 9:20pm to 6:20am (8hrs reg. time and 1 hr O.T.)</td>
<td>53</td>
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**Recommendation**

We recommend that the department review this proposal.

**Auditee’s Response**

The recommended schedule modification to reduce shift overlap costs has been referred to the Division of Operations to evaluate the operational impact of this recommendation. Shift overlap is paid by contractual agreement which is negotiated by the Governor’s Office of Employee Relations. If implementation of the recommended schedule changes is determined to be operationally feasible, the auditor’s recommendation will be forwarded to the Governor’s Office of Employee Relations.