Department of Corrections
Albert C. Wagner Youth Correctional Facility

July 1, 2000 to April 16, 2002
The Honorable James E. McGreevey
Governor of New Jersey

The Honorable John O. Bennett
President of the Senate

The Honorable Richard J. Codey
President of the Senate

The Honorable Albio Sires
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, Albert C. Wagner Youth Correctional Facility for the period July 1, 2000 to April 16, 2002. If you would like a personal briefing, please call me at (609) 292-3700.

July 17, 2002
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Department of Corrections
Albert C. Wagner Youth Correctional Facility

Scope

We have completed an audit of the Albert C. Wagner Youth Correctional Facility for the period July 1, 2000 to April 16, 2002. Our audit included financial activities accounted for in the state’s general fund. The audit does not include the financial transactions of the nonappropriated funds.

Expenditures during fiscal year 2001 totaled $49 million. The prime responsibility of the Albert C. Wagner Youth Correctional Facility (the facility) is to protect the public and provide for the custody, discipline, education, training, and treatment of persons committed to the facility. Revenues during fiscal year 2001 totaled $426,000. The major component of revenue was receipts from the laundry operation.

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 conditions noted in our prior report.

The 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 Governmental 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 Department of Corrections and the facility. Provisions that we considered significant were documented and compliance with those requirements was verified by interview, 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 controls.

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 populations were sorted and transactions were judgmentally selected for testing.

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 facility’s programs, were reasonable, and were recorded properly in the accounting system. In making this determination, we noted certain internal control matters meriting management’s attention.

We also found that the facility had resolved the significant issues noted in our prior report with the exception of the self sufficiency of the laundry operation revolving fund. This issue has been updated and restated in our current report.
Strengthening internal controls could prevent errors in processing payroll transactions.

Internal Controls - Payroll and Personnel

Since 1995 the payroll and personnel functions of the Department of Corrections have been regionalized. Region 1 includes the Albert C. Wagner and Garden State Youth Correctional Facilities as well as the Mid-State Correctional Facility. The Garden State facility serves as the processing hub for the region.

Proper segregation of duties and maintenance of accurate and complete documentation are important components of any system of internal controls. Strong internal controls are required to assure disbursements are proper, accurate, and comply with prescribed regulations, policies, and procedures. Currently, conditions exist which weaken this assurance.

Duties were not properly segregated among facility personnel. The payroll supervisor prepares the payroll proof and forwards it to the personnel manager for review, approval, and certification. Upon certification it is returned to this same individual before being forwarded by messenger to centralized payroll. The payroll supervisor also receives the checks when they are delivered to the facility.

Personnel files maintained were incomplete. Separation packages were not filed in the personnel files for 11 of the 31 employees reviewed. Additionally, documentation regarding checks generated in error and returned to centralized payroll was not included in these files.

There were three instances where multiple checks were erroneously generated for terminated employees after their date of separation. Although the checks were returned to centralized payroll, the regional office should have immediately removed the employee from the payroll proof and the Time Attendance Leave Record System (TALRS).
Fourteen employees who terminated their employment with the state had overdrawn their leave allowance. The regional office failed to deduct the value of this overdrawn leave allowance from the final pay in 13 of these cases. This resulted in unearned payroll disbursements totaling $14,000. In addition, the final paychecks or unused leave lump sum payments for ten separated employees were inaccurate. Excess payments due to these errors totaled $9,000, while underpayments totaled $6,000. These errors were primarily due to employees not being removed from the payroll in a timely fashion, posting errors, or errors in the calculation of prorated leave balances. Efforts to recover the excess payments by the regional office were minimal. Further, these cases were not forwarded to the Department of the Treasury liability recovery program (SOIL).

**Recommendation**

We recommend the regional office:

- segregate the payroll preparation duties by forwarding the certified payroll proof for processing to an employee other than the original preparer,
- maintain all pertinent information in the personnel files,
- remove all employees from the payroll proof and TALRS on a timely basis,
- establish procedures to ensure final pay for separated employees is calculated correctly,
- actively pursue recovery of excess payments made to separated employees internally as well as through the use of the SOIL program, and
- reimburse employees for the amount they were underpaid upon separation from state employment.

**Auditee’s Response**

Procedures have been implemented which will segregate payroll processing duties. The backlog of filing will be eliminated by August 2002 and a monthly review will be instituted to ensure filing is current.
The accounting methods used are too burdensome and inaccurate.

The laundry operation provides linen services for state and county government agencies on a charge-back basis. Our review of operations showed that not all related costs are reflected in the fund. Estimated annual fuel costs totaling $172,000 were last allocated in 1987. If these expenditures were charged, the fund would operate at a deficit. This condition has been reported in our prior three audits of the facility.

The charge-back basis of funding and accounting for laundry services allows the costs to be appropriated and expended at the using agency. However, with the exception of limited services to one county facility, the services are for state agencies. Hence, the state must bill and collect from itself, and as noted above, the billing does not reflect the cost. Accounting for and controlling laundry costs can be accomplished by other means, thus allowing resources to be directed toward other activities, rather than internal billing and collection.

**Recommendation**

We recommend the appropriations be made directly to the Albert C. Wagner Youth Correctional Facility rather than channeled through using agencies.

**Auditee’s Response**

We will discuss the merits of requesting a direct appropriation to the Albert C. Wagner Youth Correctional Facility for laundry services with the management of the Office of Management and Budget. Due to the budget cycle a direct appropriation will require a two-year process. The department will also consider revising the current monthly billing and collection process to a single advance billing. Each using facility would be billed at the beginning of each fiscal year. An adjustment to the advance bill would be made based on the prior year’s actual usage. This procedure will reduce the current billing and collection process by approximately 90%.
Overtime Rates

The department includes the annual clothing allowance as part of the regular rate when calculating the hourly overtime rate paid to employees. The inclusion of the clothing allowance in the overtime rate cost this facility $93,000 during calendar year 2001. Payments to senior correctional officers, who are required to wear uniforms, represented $83,000 of this amount. The governing contracts contain no provision providing for the inclusion of the clothing allowance in the overtime rate. Section 4A:3-5.2 of the administrative code, which deals with overtime compensation, states “for employees in covered titles, the regular rate includes the clothing allowance unless the allowance is for the purchase or maintenance of prescribed clothing required by the employer”.

Recommendation

We recommend the department review the policy of incorporating annual clothing allowances in the regular rate when calculating the hourly overtime rate paid employees.

Auditee’s Response

The department is aware that clothing allowance payments are included in the base salary by the Department of Treasury, Centralized Payroll in the calculation of employee overtime rates. It is our understanding this adjustment is made by the Department of Treasury based upon a formal opinion by the Division of Law.