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Enclosed is our report on the audit of the Department of Corrections, Albert C. Wagner Youth Correctional Facility for the period July 1, 1994 to June 30, 1996.

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

Richard L. Fair
State Auditor
January 15, 1997
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Department of Corrections
Albert C. Wagner Youth Correctional Facility

Scope

We have completed an audit of the Department of Corrections - Albert C. Wagner Youth Correctional Facility for the period July 1, 1994 to June 30, 1996. Our audit included financial activities accounted for in the state's General Fund, including two facility operated revolving funds, and the nonappropriated Inmate Welfare Fund, Inmate Store Account and Visitor Canteen. We reviewed the operating and recording procedures of the Inmate Trust Fund. We did not perform complete audit procedures for this account as agency reconciliations were five months in arrears and certain supporting documentation was not provided in sufficient time before the close of our field work.

Total appropriation expenditures of the agency during the 24 month audit period approximated $75 million. The prime responsibility of the Albert C. Wagner Youth Correctional Facility is the incarceration and care of male offenders convicted of offenses against society. This medium security institution provides programs for males received from the adjoining Garden State Reception and Youth Correctional Facility. The prison’s appropriated revenue totaled $1 million during our audit period. This consisted of primarily revenues of the two revolving funds. The nonappropriated accounts had receipts and expenditures totaling $5 million each.

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.

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 interviewed agency personnel to obtain an understanding of the programs and the internal control structure.

A nonstatistical sampling approach was used for our testing. Samples were selected based on dollar value, attribute applicability and auditor judgment. Our samples of financial transactions were designed to provide conclusions about the validity of transactions as well as internal control and compliance attributes.

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 related to the objectives of the facility, were reasonable, and were properly recorded in the accounting systems. In making this determination, we noted certain internal control weaknesses and matters of compliance with laws and regulations meriting management's attention. We also noted areas where operating economies can be achieved by the facility.

We found that the facility has resolved the significant issues noted in our prior report except for matters related to segregation of duties. These issues have been updated and restated in this report.

Details of our findings and recommendations follow.
Revising contracts and spending procedures could result in reducing general appropriation expenditures by approximately $500,000 per year.

Operational Efficiencies and Cost Controls

Custody personnel each receive one-half hour per day in overtime compensation for what the union contracts consider meal breaks. This time is used by the administration to overlap shifts by direct custody personnel. One may not leave his/her post until relieved by an incoming officer. We compared the “post trick” analysis (manpower budget) and daily work schedules showing the various job coverages and noted 81 positions filled by correction officers who are not replaced by an incoming shift. Because the Department of Corrections is governed by the current union contract provision, we estimate unnecessary overtime costs to be approximately $350,000 per year.

The facility maintains an inmate canteen which enables prisoners to purchase various goods for their personal use. In reviewing the canteen’s operations, we determined the facility adheres to the department’s required five percent markup (average) on goods available for inmate purchases. However, the canteen fund is not charged for various expenses incurred, either directly or indirectly. These costs are paid through general appropriations. Should management include these as part of canteen costs, it would advance the trend of having inmates participate in funding a part of their incarceration. We estimate the canteen fund would be self-sufficient if it would increase the mark-up by $100,000 annually.

Since 1991, two employees of the facility have been temporarily assigned to the New Jersey Training School for Boys at Jamesburg. Each employee receives travel time to the other facility. The travel time is computed at the overtime rate which totals $17,000 per year. Each also receives a mileage reimbursement of $2,000 for their additional travel. The facility has incurred costs in excess of $100,000 since the two received their temporary assignment at the other facility.

We reviewed personnel data and we noted similarities in positions and duties as that of the Garden State Correction and Youth Reception Facility. This facility abuts the physical location of Albert C. Wagner. The personnel and payroll offices of the two institutions were recently combined.
Further regionalization could occur through adding those same functions from Midstate Facility to the current single office. Further study by the department may identify additional duties and responsibilities which could be combined to add efficiency to operations and reduce costs.

We recommend

C during future contract negotiations the department give consideration to eliminating the one-half hour daily overtime pay for all custody employees assigned to posts not relieved by incoming shift personnel.

C the allowable mark-up of goods available for sale at the inmate canteen be increased to provide the necessary funding to pay for costs attributed to that operation. The canteen fund should reimburse general appropriations for costs incurred on its behalf.

C the department amend the temporary reassignment of employees, as applicable, to that of a permanent one, thereby eliminating the need to pay travel time (overtime) and mileage reimbursements.

C the management of the department and of Garden State, Midstate and Albert C. Wagner facilities review the necessity of maintaining like positions as well as the possibility of sharing personnel and their responsibilities.

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Internal Controls
Management has the responsibility to develop a system of checks and balances which will safeguard assets, ensure that transactions are recorded properly and detect errors or irregularities which may occur.

In both appropriated and nonappropriated funds, individuals may order goods, accept receipt, and approve payment. Persons responsible for issuing payments are also involved in the recording or reconciliation processes. Failing to separate these functions results in the potential for wrongdoing to occur without an adequate means of detection. This condition was previously reported in August 1991.

Recording time and attendance of custody personnel is done by officers in the “Operations Unit” who are also responsible for recording their own time and attendance. Our audit disclosed the following types of exceptions which remained undetected because monitoring is not performed by supervisory or managerial personnel:

- no documentation of changes to regular days off;
- errors in recording leave time;
- supervisory officers approving their own overtime hours;
- one supervisor’s overtime hours, when compared to the budgeted manpower necessary, could not be justified; and
- two officers consistently arriving one-half hour early but being paid for one full hour overtime as per the employee contract.

There is no departmental procedure enabling management to monitor the total employment time of the several employees working at both Albert C. Wagner and other state facilities. We noted one employee’s time overlapped hours worked between two facilities. Each facility may have a sign in/out form, but no way to determine if a time overlap exists. Similarly, sick leave time may be charged at one facility while working for the other.

Reconciliations of the Inmate Trust Fund bank account were five months in arrears and, until April 1996, included errors dating back to December 31, 1990. In addition, the total of the subsidiary accounts ledger was not compared to that of the general ledger as a means to prove fund distributions. Timely performance of these functions is
necessary to detect errors or omissions. Further, the proper disposition of noted errors is necessary to ensure accuracy in the accounts.

Unprocessed checks of the nonappropriated funds were not maintained in a secure manner. Checkbooks and unwritten checks should be securely stored with limited staff access.

There is no system to record and control fixed assets at the facility in accordance with Treasury requirements. Assets purchased by the nonappropriated funds were not identified as such, nor could they be distinguished from other state owned items.

We recommend the facility segregate the ordering, receiving and payment approval functions. The payment, recording and reconciliation functions should be segregated to ensure a better system of checks and balances in routine operations.

We informed management of our exceptions related to the payroll monitoring functions. Immediate steps were taken to correct the weaknesses and to investigate errors. We make no further recommendation in this area.

Regarding procedures related to employees working at more than one facility, we recommend the department notify facilities affected by these circumstances. The affected agencies should communicate as to the requirements of each for approving payroll or other means of worker remuneration.

We recommend an effort be made to reconcile all facility fund records to the bank balances and establish procedures to keep this process current. This process should include a proper segregation of duties as mentioned above. We also recommend that unissued checks be stored in a secure area.
We recommend the business office institute procedures to segregate and control fixed assets and identify their source of funding.

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**Other Matters**

The facility operates two revolving funds: the Laundry Revolving Fund and the Upholstery Shop. We found not all costs (direct and indirect) are included as a part of operating costs. Failing to include all costs presents an improper result of operations on which to base management decisions. In addition, the department subsidized the laundry operations with a cash transfer to the fund of $17,000. As a revolving fund, the operation should be self sufficient, with receipts covering the costs of operations. The department does not require all its facilities to utilize the laundry operations, nor does Wagner pick up and deliver which deters other state facilities from using this service. We believe the laundry operation could be self sufficient, if it were to expand services.

We reviewed the system used to record and process inmate wages. Each inmate assigned to a work detail is checked in by the officer in charge of that detail. These daily sheets are used to compute the number of days worked and are entered into a computerized record keeping system. The system verifies that no inmate receives more than the maximum allowable payroll for the month. We were informed that processing the inmate payroll requires approximately ten days per month. It does not prevent mathematical errors from occurring nor does it prove to any total. We believe this system could be more efficient.

We recommend that charges to the funds should include all costs attributed to operations and the funds should be self sufficient. The laundry should expand services to achieve self sufficiency.

We further recommend the facility and the department review the current method of accounting for inmate wages. Consideration should be given to accounting by exception. We believe setting the maximum monthly pay per inmate as a standard, then deducting the pro rated share of any days
not worked may alleviate much of the time consuming record keeping currently employed.

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DEPARTMENTAL RESPONSE

Mr. Richard L. Fair  
State Auditor  
Office of Legislative Services  
Office of the State Auditor  
CN 067  
Trenton, NJ 08625-0067

Dear Mr. Fair:

I have reviewed the final report prepared by your office summarizing the audit of the Albert C. Wagner Youth Correctional Facility (ACW) covering the period of July 1, 1994, through June 30, 1996. The Department concurs with each finding included in the report. I have been advised by the institution's Administrator that actions have been taken to comply with many of the auditor's recommendations. The following responses were developed based on information submitted by the Administrator.

Operational Efficiencies and Cost Controls
As previously reported, the one-half hour overtime granted custody personnel is required by the existing union contract which was negotiated by the Governor's Office of Employee Relations. The Department's input and control over such negotiations are extremely limited. The Department has, however, referred this matter to the Office of Employee Relations for consideration. Resolution of this finding is contingent upon that Office's consideration of your recommendation and the results of future contract negotiations.

The Department's FY 1997 budget was reduced by $1,000,000 based on the anticipated privatization of commissary operations. The Department is developing a Request for Proposal (RFP) for privatization of inmate commissary operations at several facilities. Department management also intends to implement "best practices" with the expectation that significant economies and savings can be achieved to enable the commissary fund to absorb all direct costs within the present five percent mark-up.
Two custody employees of the facility were temporarily assigned to the New Jersey Training School for Boys (NJTSB) to address a security weakness resulting from the lack of sufficient custody personnel at NJTSB. The temporary assignment of one officer has been terminated; the remaining officer will be reassigned back to CAW in the very near future.

The Department is exploring the possible privatization of facility maintenance, and food services at all institutions. The Department will also consider regionalizing common services when operationally feasible and cost effective.

**Internal Controls**

The facility Administrator has advised that segregation of duties in the ordering, receiving and payment of goods has been initiated.

Institutions will be directed to coordinate approval of payroll and time records when employees are working at more than one facility.

Institutional business office staff has initiated the reconciliation process for all inmate funds maintained by the institution. In addition, the institution will develop and implement necessary procedures to assure that reconciliations are current and that appropriate segregation of duties is accomplished. Unissued checks are now stored in a secured area.

Procedures have been implemented to segregate and control fixed assets and identify relevant sources of funding.

**Other Matters**

**Revolving Fund Operations:** Charges to the funds will include all direct costs attributed to operations. The Laundry Operation is expanding services to include the new South Woods State Prison which will generate additional revenues. Equipment is also being donated by Trenton Psychiatric Hospital which should reduce current operating costs. These efforts will assist the Laundry Operation in becoming self sufficient.

Richard L. Fair
State Auditor
Inmate Wages: Further consideration is required to determine the feasibility of processing inmate payroll by exception. Due to the excessive number of exceptions (inmate transfers and changes in job assignments), processing by exception may not be the most efficient method. A pilot project of posting by exception, however, may be instituted at selected facilities.

Sincerely,

William H. Pauver
Commissioner