Office of the State Auditor

Audit Report

Department of Corrections

New Jersey Training School for Boys

July 1, 1993 to May 31, 1995
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We have completed an audit of the Department of Corrections - New Jersey Training School for Boys for the period July 1, 1993 to May 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. Our review disclosed internal control weaknesses that jeopardize the assets of the agency and areas where revenues could be enhanced and operating economies could be achieved. We also uncovered an overlap of time reported by a state employee hired simultaneously as a vendor. 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.
Department of Corrections  
New Jersey Training School for Boys

Scope

We have completed an audit of the Department of Corrections - New Jersey Training School for Boys for the period July 1, 1993 to May 31, 1995. Our audit included financial activities accounted for in the state's General Fund and the facility's nonappropriated accounts.

Total expenditures of the agency during the 23 month audit period were $42.5 million. The prime responsibility of the New Jersey Training School for Boys is to provide custodial control to protect the public and provide social, educational, and vocational programs in an attempt to prepare the juveniles for successful re-entrance to society. Revenues totaled $105,000 during our audit period. The major components of revenue were a work release program and eyeglass program.

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 conditions noted in our prior report.

This audit was conducted pursuant to the State Auditor's responsibilities as set forth in Article VII, Section 1.6 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. Transactions were judgmentally selected.

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 objectives of the agency, 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. In addition, we noted areas of potential revenue enhancement and operating economies.

We also found that the agency has resolved the significant issues noted in our prior report except for matters related to fixed asset records and control procedures. These issues have been updated and restated in our current report.

Details of our findings and recommendations follow.
Internal Controls

Payroll Preparation and Distribution

Management is responsible for establishing an internal control structure that will safeguard assets from loss or irregularity. Our review of payroll procedures disclosed a weakness in internal controls in regards to payroll preparation and subsequent check distribution. The same individual who prepares the payroll proofs for submission to Department of the Treasury’s centralized payroll unit has access to the checks prior to distribution. This lack of segregation of duties presents a potential for loss where a check could be generated and removed prior to check distribution.

Recommendation

Management should strengthen internal controls by ensuring that the check distribution process does not utilize employees involved in payroll preparation.

Purchasing and Receiving

Management is responsible for establishing an internal control structure that will safeguard assets from loss or irregularity. Our review of purchasing procedures disclosed a weakness in that there is no centralized receiving section within the New Jersey Training School for Boys. An employee of an individual section can order goods and services, receive the goods and services, and initiate the payment process. 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 provided. During our audit period, approximately $2.8 million in appropriations was made available for such expenditures.

Recommendation

Management should strengthen internal controls by creating a receiving section independent of the ordering and payment functions.
Time Sheet Approval

Adequate internal controls over payroll expenditures include supervisory approval and subsequent review by payroll personnel for reasonableness and allowability. Our review of a sample pay period revealed time sheets applicable to special services where supervisory approval was not obtained yet payments were processed. Of 87 time sheets, 75 representing salaries of $18,300 were not reviewed and approved.

Recommendation

Payroll expenditures should be approved by appropriate supervisors and reviewed for reasonableness and allowability by payroll personnel.

Fixed Assets

As noted in prior audits, the New Jersey Training School for Boys does not maintain fixed asset records. The facility does not comply with 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 in order to attest to the perpetual fixed asset records maintained by the Department of the Treasury's Office of Management and Budget. Management has not complied with these directives. As a result, the facility lacks adequate control over the use and safeguarding of its fixed assets.

Recommendation

We recommend that the facility maintain a fixed asset inventory system in compliance with Circular Letter 91-32 and that the facility comply with the requirements of Circular Letter 94-05 in attesting to the accuracy of the New Jersey Fixed Asset System maintained by the Department of the Treasury's Office of Management and Budget.
Operating Economies/Revenue Enhancements

During our audit period, the New Jersey Training School for Boys did not take eligible discounts on purchases. The potential savings was determined to be $8,186. Management should prioritize the payment of discounted bills in order to avoid the unnecessary expenditure of funds.

The facility follows a union contract agreement which allows all correction officers to receive one-half hour per day overtime compensation in which the officer cannot leave his/her post until relieved by an incoming officer. Our review of the daily work 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 $100,000 annually.

Our review of the optical laboratory operations revealed that prescription eyeglasses are produced for most Department of Corrections facilities, the Department of Environmental Protection special unit involved with chemical waste projects, and seven county jails. The $25 average charge for a pair of eyeglasses appears to be extremely reasonable compared to the prices charged by outside vision centers. The manager of the operation noted additional production capabilities. Potential savings could be achieved by having Trenton State Prison, various Department of Human Services programs, and other county facilities participate in the program. An increase in production would enhance the educational program offered to the inmates and reduce vision care costs of state funded facilities.

Recommendations

In order to improve operating economies and enhance revenues, we recommend the following:

C The business office should prioritize discounts when making payments in order to obtain cost efficiency.

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

C The department should attempt to increase the demand for eyeglasses from the New Jersey Training School for Boys by notifying potential customers.
Compliance Issues

Fiscal Year Charges

Our tests of financial transactions revealed numerous expenditures charged to the improper fiscal year. Expenditures totaling $308,000 pertained to fiscal year 1995 but were charged against fiscal year 1994 appropriations. This represents noncompliance with the 1994 Appropriations Act which states that expenditures must be applicable to the fiscal year charged. This amount should have therefore lapsed to general surplus.

Recommendation

We recommend that management charge expenditures to the proper fiscal year and allow unexpended balances to lapse to general surplus.

Contracting with Vendors

Our review disclosed that management has not complied with regulations in contracting vendors. In hiring two ministers, management did not complete the written bid procedures required by Department of the Treasury Circular Letter 93-23F for purchases between $2,501 and $10,000 nor did management submit a requisition to the Purchase Bureau for purchases that exceed the $10,000 limit. One minister received $8,300 during fiscal year 1994 and $8,400 during fiscal year 1995. The other minister received $6,400 during fiscal year 1994 and $20,000 during fiscal year 1995.

Recommendation

We recommend that management comply with Department of the Treasury Circular Letter 93-23F when purchasing goods and services.
Time Overlap

Our review disclosed that a state employee at the New Jersey Training School for Boys was also hired and paid as a vendor. Our analysis of bi-weekly time sheets revealed several occurrences where hours they worked reported under each position overlapped. It is apparent that this individual was charging time to a position where they were not present and therefore not eligible for salary payment. Management needs to develop a timekeeping procedure that will prevent such instances of overpayment from occurring. A centralized location for signing in and out may deter individuals from requesting payment when not actually present.

Recommendation

We recommend that management develop timekeeping procedures that will verify attendance and deter payment of unearned income. We also recommend that the Department of the Treasury investigate and determine whether a policy should be initiated to prevent a state employee from simultaneously being a vendor.