# Audit Report

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We have completed an audit of the Department of Corrections-Juvenile Medium Security Facility for the period July 1, 1994 through January 31, 1996.

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 in the internal control structure is needed, noncompliance with education funding legislation which resulted in unnecessary expenditures of $100,000 and potential annual operating cost savings of $66,000. 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
Juvenile Medium Security Facility
Scope

We have completed an audit of the Department of Corrections - Juvenile Medium Security Facility for the period July 1, 1994 through January 31, 1996. Our audit included financial activities accounted for in the state’s General Fund and the facility’s nonappropriated accounts.

Total General Fund expenditures of the agency during the 19 month audit period were $16.9 million. The prime responsibility of Juvenile Medium Security Facility is the training, control and rehabilitation of committed youths who are unable to participate in a minimum security setting. There are no state revenues recorded in the facility’s accounts.

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. Sample transactions were systematically and 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 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. We also noted $166,000 of potential cost savings.

We also found that the agency has resolved the significant conditions noted in our prior report.

Details of our findings and recommendations follow.

Education Program

Pursuant to the State Facilities Education Act of 1979 the Department of Corrections is appropriated monies for the educational needs of juveniles incarcerated in the correctional system. The department allocated $1.7 million of these funds to the Juvenile Medium Security Facility in fiscal year 1995. However, management used $100,000 of this funding to employ four persons to perform duties unrelated to the facility’s education program. The use of education funding for noneducational purposes is unallowable per the aforementioned act.

We recommend that management comply with the State Facilities Education Act of 1979 by following the guidelines restricting the use of education funding.

Internal Controls - Payroll

Payroll costs were $14 million during the review period. We noted that persons responsible for preparing the payroll register, which is used by the Department of the Treasury’s Centralized Payroll Unit to issue payroll checks, also received and distributed payroll checks. In addition, these individuals had access to the Department of Personnel’s Personnel Management Information System (PMIS) with the ability to initiate the adding or deleting of persons from that system. Management has not designed an adequate control structure which segregates the disbursement initiation process from the handling of checks therefore creating a high risk environment.
We recommend that the payroll register preparation function be segregated from the receipt and/or distribution of payroll checks.

**Internal Controls - Nonappropriated Funds**

The facility maintains various nonappropriated funds for the benefit of the inmate population. These funds are accounted for separately from the centralized state accounting system and therefore are not subject to the same internal controls inherent in that system. These funds include the inmates’ trust, canteen, welfare and photo funds. Separate bank accounts are maintained and approximately $325,000 flow through them annually.

The business manager and the accountant were two of the four authorized check signers for all nonappropriated accounts. These accounts require only one check signer for negotiation. Either the business manager or the accountant also received goods delivered to the facility and the accountant prepared the bank reconciliations and financial statements. We also noted that the process for canteen purchases included having the receiving reports prepared, inventory records prepared and physical inventory taken by either of these two individuals. A proper control structure separates payment authorization from the receiving function and preparation of bank reconciliations and financial statements. Management’s failure to implement an adequate internal control structure has created unnecessary risk associated with these funds. Controls are necessary to ensure the integrity of bank and checkbook balances and to detect errors and irregularities on a timely basis.

We recommend that management segregate check signing authority from those who receive goods, take inventory, or prepare bank reconciliations and financial statements.

**Internal Controls - Appropriated Expenditures**

Appropriation expenditures for nonpayroll related costs were $2.7 million for the period of review. We noted an internal control weakness in the purchasing cycle. Duties of initiating a purchase, receiving, preparing the receiving report and having control over items purchased are not always segregated. In addition, storeroom purchases are inventoried by the same person. Management’s implementation of an adequate control structure which includes proper segregation of duties is necessary to safeguard assets from loss or unauthorized use without being detected in a timely manner. In response to similar weaknesses noted in recent reports of other state correctional facilities the Department of Corrections’ Bureau of Audits and Accounts issued the department-wide Accounting Bulletin 96-30, dated December 1, 1995, which states in part, “Goods ordered are to be received by an individual or unit other than that requesting the goods or
responsible for approving payment. Ideally, all goods should be received in a central unit responsible for the receiving function.”

We recommend that management segregate duties in compliance with the recently mandated Department of Corrections Accounting Bulletin 96-30.

**Operational Cost Saving - Shift Overlap**

Custody personnel each receive one-half hour per day in overtime compensation for what union contracts consider meal time breaks. We noted, however, department administration actually use this time as an overlap in shifts by direct custody personnel. One cannot leave his/her post until relieved by an incoming officer. Our review of the facility’s “post trick” analysis which details the post coverages disclosed 11 posts staffed by correctional officers that are not filled by the subsequent shift. This equates to 5.5 hours per day at an annual cost of over $50,000 per year to compensate for shift overlap that does not occur. The Department of Corrections is mandated by union contract to compensate for shift overlap, nonetheless.

We recommend that during future contract negotiations, consideration be given to eliminating the daily one-half hour overtime payments for custody personnel assigned to posts which are not relieved by the subsequent shift.

**Operational Cost Saving - Maintenance Unit Overtime**

The superintendent has the discretion to have positions not requiring replacements to be compensated for overtime worked either with cash or compensatory time. Our review of nine positions meeting this criteria in the maintenance unit disclosed that these individuals were compensated with cash during fiscal year 1995 totaling $16,000. The granting of compensatory time for overtime worked to positions not requiring replacement could reduce the cost of operating the facility. If the accrual and subsequent use of large compensatory balances occurred and began affecting the operation of the facility, the superintendent could then use his discretion to return to cash payments.

We recommend that management consider compensating persons in positions not requiring replacement with compensatory time rather than with cash payment.