



**New Jersey State Legislature  
Office of Legislative Services  
Office of the State Auditor**

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**Department of Corrections  
Southern State Correctional Facility**

July 1, 1996 to November 30, 1997

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**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, Southern State Correctional Facility for the period July 1, 1996 to November 30, 1997.

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

Peter M. Guilfoyle  
Assistant State Auditor  
January 16, 1998

## Table of Contents

	<b>Page</b>
<b>Scope</b> . . . . .	<b>1</b>
<b>Objectives</b> . . . . .	<b>1</b>
<b>Methodology</b> . . . . .	<b>1</b>
<b>Conclusion</b> . . . . .	<b>2</b>
<b>Findings and Recommendations</b>	
<b>Appropriations</b> . . . . .	<b>3</b>
<b>Funds</b>	
<b>Southern State Industries</b> . . . . .	<b>5</b>
<b>Inmate Store</b> . . . . .	<b>5</b>
<b>Welfare Fund</b> . . . . .	<b>6</b>
<b>Payroll</b> . . . . .	<b>7</b>

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## Department of Corrections Southern State Correctional Facility

### *Scope*

We have completed an audit of Department of Corrections, Southern State Correctional Facility for the period July 1, 1996 to November 30, 1997. Our audit included financial activities accounted for in the state's General Fund and nonappropriated accounts.

Total appropriation expenditures of the facility are \$43 million annually. The prime responsibility of Department of Corrections, Southern State Correctional Facility is providing for the custody, discipline, training, and treatment of persons committed to state correctional institutions.

### *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, 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. 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 judgmentally selected.

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.

*Conclusion*

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. In making this determination, we noted certain internal control weaknesses and matters of compliance with laws and regulations meriting management's attention. We also found that the agency has not resolved the significant issues noted in our prior report. These issues have been updated and restated in our current report.

## Appropriations

**P**urchases should be based upon current needs and not available funds.

The internal control structure consists of policies and procedures established to provide reasonable assurance that transactions will be properly recorded and reported, and that assets are safeguarded. Our review of appropriation expenditures noted internal control structure weaknesses. We noted that purchase request forms were not approved by supervisors as required by DOC policy. We noted that one individual prepared the purchase request form, selected the vendor, and signed the receiving report in one department that had material expenditures. Segregation of these duties between two or more employees reduces the risk that an error or irregularity could go undetected.

Our tests disclosed that building material expenditures of \$70,000 were commingled between general and dedicated accounts contrary to guidelines of the New Jersey Comprehensive Financial System (NJCFS). When brought to management's attention, it was noted that the commingling of building material purchases between the general and dedicated accounts was a regular practice. We also observed that lumber products were being stockpiled at the facility to utilize available appropriations.

### *Recommendation*

We recommend that the purchasing and receiving functions be properly segregated. Purchases should be approved and based upon current needs rather than available funds. An accounting should be made of the commingled building material purchases and the amount inappropriately charged to general accounts should be reimbursed from the dedicated account to the general state surplus. We also recommend that expenditures be recorded in compliance with NJCFS guidelines.

### *Auditee's Response*

We concur with your recommendation regarding the segregation of duties to provide for stronger internal control. Recent changes in Business Office staff

workloads will now enable their participation in the purchasing process. The Business Office will now solicit bids and select vendors in lieu of Department Heads. It has always been the policy of the institution to approve purchases based upon need rather than available funds. Institution management will be in a better position to monitor this policy as a result of direct Business Office involvement in the procurement process.

The issue of commingled funds between the general and dedicated accounts has been reviewed with the appropriate Institutional staff. The condition which gave rise to the appearance of commingling was that the same individual signed procurement documents for two different programs. The Institution's Industrial Manager, who also served as the Institutional Work Committee Chairman, ordered materials for both institutional use as well as the Industries program. The Business Manager will now approve all purchase orders. Inventories of lumber and other materials will be separately maintained to clearly identify Institutional use and Industries use. Expenditures will be recorded in accordance with NJCFS guidelines.

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## Funds

**The absence of financial controls create a risk that material errors or improprieties could occur and remain undetected.**

Several funds are maintained by the facility for the benefit of the inmate population. The Welfare Fund and Inmate Store are bank accounts, while Southern State Industries is a dedicated account within the General Fund. A number of internal control weaknesses were noted.

### Southern State Industries

Management has not established operating expectations nor procedures to periodically monitor operating results. We also noted a lack of segregation of duties in areas of procurement, accounts payable, inventory control and safeguarding of assets. Discussions with management disclosed that not all costs (salaries, fringe benefits, and materials) were charged to the fund resulting in a state subsidy of operations. Our tests noted that products valued at \$10,000 were given away free of charge or exchanged for trade agreements since November 1994. The above weaknesses create a risk that material errors or improprieties could occur and remain undetected.

### Inmate Store

The effectiveness of the internal control system is questionable due to the lack of an independent review of inventory counts, which are used by management to monitor the effectiveness of operating results. We also noted that operating costs (salaries and wages) are charged to the General Fund rather than the Inmate Store Fund and are not reflected in the prices charged.

### Welfare Fund

We noted a lack of segregation of duties in determining the need for goods and services, vendor selection, support for bids/quotes, and accounts payable initiation. Proper segregation of duties helps management provide reasonable assurance that assets are safeguarded and objectives are achieved.

### *Recommendation*

We recommend that management implement procedures that address segregation of duties and the means to effectively monitor operating results. These procedures should also include recording all costs of operations to the dedicated account as required by state guidelines.

We further recommend that the facility discontinue the practice of giving away assets of Southern State Industries free of charge or exchanging them for trade agreements.

### *Auditee's Response*

We are in agreement with your recommendation regarding the need for segregation of duties and establishing a means to monitor the operating results of the various programs. It appears that the unexpected growth of some of the industry programs has contributed to the control weaknesses identified. Management of Southern State Correctional Facility will implement segregation of duties as recommended through changes in Business Office staff assignments. Quarterly financial statements will be prepared and compared with operating expectations to monitor program effectiveness.

We are in the process of establishing dedicated accounts in the NJCFS for the Inmate Store and will charge the appropriate staff salaries to that account. Further analysis of Southern State Industries financial operations will be performed to determine the feasibility of charging staff salaries to the Southern State Industries account.

The practice of donating products and entering into trade agreements by Southern State Industries has been discontinued.

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## Payroll

**S**upervisory review of time sheets is needed to ensure the accurate processing of payroll.

The “Absence and Overtime Time Sheet” (Form 0457), which is a summary of time sheets for a unit, is used as a data entry document for the Time and Leave Record System (TALRS) by section timekeepers. Following the close of a pay period, TALRS generates verification reports showing the status of entered transactions. We noted that Form 0457 was generally not verified by supervisors as required by Department of Corrections communication dated October 2, 1996. Our tests noted pay-time variances and unsupported entries in the verification reports for seven of twenty employees tested in one unit. The lack of supervisory review is an internal control weakness which creates the possibility of time manipulation.

### *Recommendation*

We recommend that management improve internal controls over timekeeping and leave records by requiring supervisory verification of the “Absence and Overtime Time Sheet” (Form 0457) and comparison with the TALRS verification reports.

### *Auditee’s Response*

The Operations Unit of the Institution has been advised of the proper procedures for supervisory review of “Absence & Overtime Time Sheets” and comparison with TALRS system reports. All operating unit supervisors will also be advised of the procedure to review and verify timekeeping and leave records.

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