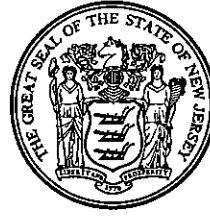

**New Jersey State Legislature
Office of Legislative Services
Office of the State Auditor**



**Department of Corrections
Central Office**

July 1, 2009 to January 31, 2012

**Stephen M. Eells
State Auditor**

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Enclosed is our report on the audit of the Department of Corrections, Central Office for the period of July 1, 2009 to January 31, 2012. If you would like a personal briefing, please call me at (609) 847-3470.

Stephen M. Eells
State Auditor
April 23, 2012

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Scope

We have completed an audit of the Department of Corrections (DOC), Central Office for the period July 1, 2009 to January 31, 2012. The Central Office functions include the Division of Management and General Services, systemwide program support, and the Bureaus of State Use Industries (DEPTCOR) and State Farm Operations (Agri-Industries). Our audit included financial activities accounted for in the state's General Fund. In addition, we reviewed the criminal history background check process performed by the department. We also evaluated select general controls related to specific DOC information technology (IT) systems encompassing security management, logical access, and change management. We did not audit inmate medical expenditures since they are included in a separate departmental audit performed by our office. Also, we did not audit community programs (halfway houses) since they were recently audited by the Office of the State Comptroller.

The mission of the DOC is to protect the public by operating safe, secure, and humane correctional facilities. The DOC states the mission is realized through effective supervision, proper classification, appropriate treatment of offenders, and by providing services that promote successful reentry into society. Annual expenditures averaged \$144 million during the audit period.

Objectives

The objectives of our audit were to determine whether financial transactions were related to the department's programs, were reasonable, and were recorded properly in the accounting systems. We also determined whether criminal history background checks were adequate for new hires, contractors, and volunteers having access to secured department facilities. In addition, we determined the adequacy of select general controls over certain DOC IT systems including policies and procedures to manage and maintain the systems, user authentication to provide system security, and recovery methods to enable system continuity. The audit was conducted pursuant to the State Auditor's responsibilities as set forth in Article VII, Section I, 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, the administrative code, circular letters promulgated by the Department of the Treasury, and policies of the department. 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 messages, reviewed financial trends, and interviewed department personnel to obtain an understanding of the programs, the background check process, information technology systems, and the internal controls.

A nonstatistical sampling approach was used. Our samples of financial transactions were judgmentally selected and were designed to provide conclusions about the validity of transactions, as well as internal control and compliance attributes. Our review of the background check process was designed to provide a conclusion as to its adequacy, while our review of the IT systems was designed to provide a conclusion on the general controls in place.

Conclusions

We found that the financial transactions included in our testing were related to the department's programs, were reasonable, and were recorded properly in the accounting systems, except for the proper recording of Agri-Industries and DEPTCOR inventories. In making these determinations, we noted internal control weaknesses and other matters requiring management's attention.

We also found the criminal background check process to be adequate, except for unprocessed fingerprint cards. In addition, we found adequate select general controls over certain DOC IT systems. In making these determinations, we noted areas where certain controls could be improved.

Agri-Industries

Lack of performance measurements, going concern issues, and internal control weaknesses plague Agri-Industries.

The Bureau of State Farm Operations (Agri-Industries) operates six dairy/crop farms, and milk, meat, and produce processing plants with a staff of approximately 40 employees and 300 inmates. Annual revenue and expenditure activity averages \$12 million. Its objective is to provide dairy products, meat, poultry, and vegetable products to Department of Correction (DOC) facilities and to certain programs within the Department of Human Services, the Department of Military and Veterans Affairs, and the Juvenile Justice Commission at a savings while stressing a strong work ethic and promoting sound work habits among inmates in providing programs that reduce recidivism. It is administered as a self-supporting revolving fund, requiring no state appropriations. Neither Agri-Industries nor the DOC measure the success of these objectives. There is no analysis of cost savings provided to customers and there is no analysis of the recidivism rate of inmates participating in the program. In addition, its status as a self-supporting revolving fund is in jeopardy. Also, adequate financial statements are not prepared for Agri-Industries that could provide management information about its financial position and performance that could be useful in making economic decisions.

Excess funds are carried forward to the next fiscal year. This amount has been steadily decreasing the last three fiscal years. Fiscal year 2009 carried \$772,000 into fiscal year 2010, fiscal year 2010 carried \$503,000 into fiscal year 2011, and fiscal year 2011 carried \$75,000 into fiscal year 2012. It is anticipated the revolving fund will end fiscal year 2012 with a deficit balance and will require state appropriations, ending its status as a self-supporting revolving fund. Management has stated that the decline is attributable to lost revenues due to competition, reducing the price of items to meet competition, and increased cost to provide low fat milk. It is interesting to note that the DOC's own restaurant, *Mate's Inn*, located on grounds of the central office complex, does not procure its products from Agri-Industries.

Agri-Industries may also face a decrease in business because of a department pilot program to privatize the food service at one of its facilities. That facility purchased almost \$600,000 of goods from Agri-Industries in fiscal year 2011. The pilot program is currently at the request for proposal stage. Success of the pilot program and potential expansion would have a significant effect on Agri-Industries.

Our audit also disclosed internal control and/or compliance deficiencies in the areas of purchasing, receivables, timely deposits, cattle inventory, and employee housing.

Purchasing

Our tests of 33 invoices found 27 were missing the purchase request, the purchase order, or the receiving report. In three instances, invoices were split resulting in the circumvention of the Department of the Treasury Circular Letter 11-10-DPP Delegated Purchase Authority procedures requiring three telephone quotes or three sealed bids. In addition, 14 payments

totaling \$233,000 were made between 6 and 389 days past their due date.

Receivables

We analyzed shipping memorandums as a means to test the accounts receivable balances and found that of the 976 shipping memorandums in June 2011, 129 had changes to the actual amount shipped of which 96 were not adjusted to the correct amount. In addition, we noted of the 33 customers, 14 had accounts receivable balances totaling \$153,000 as of the end of fiscal year 2010 and these balances were not carried over to fiscal year 2011. We also noted that outstanding balances were not carried over to fiscal year 2012. Subsequent year receipts that should be applied to a receivable are instead recorded as a "credit" to the customer. Agri-Industries is relying on the customers to make the proper payments.

Deposits

Department of the Treasury Circular Letter 94-24 requires state agencies to deposit checks on the same day received. Agri-Industries records the check date on its check log instead of the receipt date, nevertheless our test of 79 checks disclosed 70 were deposited 10 days or more past the check date of which 48 were deposited 20 days or more past the check date. Agri-Industries received \$850,000 in cash receipts from July 1, 2009 through October 31, 2011.

Inventory

Accurate inventory records were not maintained for cattle owned by Agri-Industries. The master inventory maintained at Agri-Industries central office listed 736 cattle. We visited two of the five dairy farms and compared the master list for those locations (316 cattle) to the inventories maintained at the sites and found the master list was overstated by 101 cattle. When we were provided an updated master list, 97 cattle were listed as dead. Documentation was not available to substantiate total deaths. As a result, cattle may be unaccounted for.

Employee Housing

During our audit, five DOC employees resided in state residential properties located on Agri-Industries farms. A DOC internal policy requires the administrator of Agri-Industries to ensure all tenants adhere to the state Residential Housing Management Board (RHMB) Policy and Regulations which includes the Procedural Guide for Occupying and Vacating Employee Housing Units as established in New Jersey Administrative Code 17:17. Our review disclosed noncompliance with the following:

- Employees are required to sign a RHMB lease prior to occupancy. This lease is detailed and contains specific guidelines to be agreed upon. Although brief, succinct lease amendments have been signed each year, only two of the five residents signed a RHMB lease.
- Utility charges were not paid by the employees as required. We noted over \$66,800 in utility charges were incurred during the audit period and not billed to the employees.

- Upon vacating a unit, the employee is required to leave the property clean, in good condition, and to remove all personal property. During our visit to one location, we noted two boats and a garage full of personal items left by an employee who moved over a year ago.

Recommendation

We recommend that Agri-Industries measure the success of its objectives in providing products and services at a cost savings and in reducing recidivism. In addition, Agri-Industries should prepare financial statements and a decision should be made on the future of Agri-Industries and the possibility of providing appropriation funding to sustain operations.

We also recommend Agri-Industries improve their internal controls and/or compliance over invoice processing, billing and receivables, timely deposits, cattle inventory, and employee housing. Specifically Agri-Industries should:

- comply with Department of the Treasury Circular Letter 11-10-DPP when making applicable purchases, and in addition, payments should be made timely.
- adjust shipping memorandums to the actual amount shipped to allow for accurate billing and accounts receivable records. Also, accounts receivable records should be carried forward to subsequent years.
- comply with Department of the Treasury Circular Letter 94-24 and deposit checks within one day of receipt.
- maintain accurate cattle inventory records and all cattle deaths should be documented by a person outside the operation.
- comply with New Jersey Administrative Code 17:17 guidelines when leasing residential properties to employees.

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DEPTCOR

DEPTCOR needs to improve marketing and pricing of its products, measure its performance, and update a Memorandum of Agreement.

The Bureau of State Use Industries' (DEPTCOR) mission is to educate, train, and provide marketable skills through the operation of a variety of manufacturing and service enterprises, enabling participating inmates to produce finished products that are top-quality and cost effective adding value to statewide tax supported agencies, resulting in reduced inmate idleness, cost savings for the taxpayer, job opportunities to those having received DEPTCOR training, and reduced recidivism. Neither DEPTCOR nor the Department of Corrections has measured the success of these objectives. DEPTCOR operates as a revolving fund with the revenue

generated from the sales of its products and services to state and local government agencies. The revolving fund averaged \$16 million in revenues and expenditures for fiscal year 2010 and fiscal year 2011, which is a decrease from its \$18 million in activity in fiscal year 2009.

DEPTCOR operates at nine state correctional facilities and its central warehouse located in Trenton. Product industries and services include textile, metal, auto tag, bakery, mop, furniture, sign and graphic, print, wood, concrete, and other items. Per New Jersey statute, a catalog including a description and price list of all the articles manufactured or produced by the inmates of DEPTCOR should be created and disseminated to all facilities, to all state departments, to governing bodies of each county and their corresponding institutions, and made available to other states and their political subdivisions. The last catalog was created in 1993. Without a current description and price list of all the articles, DEPTCOR is unable to effectively market their items and utilize the internet for marketing.

The selling price of an item should be based on the cost of production for material and labor including maintenance and wage payments with an established profit margin. DOC Internal Management Procedure IMP100 010507 provides guidelines to update raw material prices on a cost card system. DEPTCOR has not updated its cost card system for raw material prices since 2004. One industry recently calculated its product cost and noted it had nearly doubled in seven years and that DEPTCOR was selling the item below cost. In addition, the profit margin percentages applied vary by industry between 15 percent and 30 percent and are not regulated by an internal management procedure.

Regional Food Production at South Woods State Prison (SWSP) is an operation that prepares prepackaged meals for distribution to DOC correctional facilities. DEPTCOR manages the operation's Consolidated Food and Distribution Warehouse. The warehouse is also used by Agri-Industries, which processes meats and vegetables for Regional Food Production and by SWSP for its own inventories. In fiscal year 2004 a Memorandum of Agreement (MOA) was entered into by DEPTCOR with Regional Food Production, Agri-Industries, and SWSP. The agreement period was for one fiscal year but it has never been updated. We noted that the cost allocation per the MOA is not followed. The MOA dictates that DEPTCOR's costs for the operation be allocated between Agri-Industries and SWSP; however, we noted Regional Food Production is also charged a reasonable portion of the costs. In addition, we noted DEPTCOR uses part of the warehouse and vehicles for its own separate operations and has not contributed to the costs since fiscal year 2006.

The MOA also established DEPTCOR deliverables which include maintaining the warehouse and vehicles in a sanitary and safe environment that is fully operable; and to maintain accurate inventory records of dry, frozen, and refrigerated commodities and to provide inventory reports.

- During a site visit to the warehouse, we noted an unsanitary and unsafe environment. During our walk-through, we noted open bags and open food containers, trash and rotten food products mixed within the food inventory, and leaning pallets of food within the warehouse. DOC management has indicated that immediate corrective action was taken when told of our observations.

- The Regional Food Service is not provided weekly and monthly inventory reports as required in the MOA. Regional Food Service's own annual physical inventory, last performed in April 2011, disclosed differences with the perpetual inventory records. Negative quantities over \$20,000 were absorbed by Regional Food Production. Had DEPTCOR performed inventory reporting as required, differences may have been remedied in a timely manner.

Recommendation

We recommend that DEPTCOR measure the success of its objectives, specifically in regards to providing cost savings to the taxpayer, job opportunities to those inmates receiving DEPTCOR training, and a reduced recidivism rate. We also recommend DEPTCOR create and disseminate a catalog including a description and price list of all the articles manufactured and produced by the inmates in accordance with the New Jersey statute. We further recommend that DEPTCOR include the catalog on their website as a means to better market their products. Furthermore, DEPTCOR should update raw material cost records timely to allow for proper product pricing. In addition, we recommend an updated Memorandum of Agreement be executed that is more in line with the actual allocations of costs being performed. DEPTCOR should be part of the allocation for its use of the warehouse, and should maintain the warehouse in a sanitary and safe environment and provide inventory reports as required by the MOA.



Criminal History Background Checks

Improvement to the criminal history background check process is needed for individuals having access to DOC facilities.

Extensive, computerized, criminal background checks are to be conducted on all individuals who are being considered for civilian employment, whether permanent, temporary, or contract positions, or to be volunteers within the department. Correctional officer recruits are subject to a more stringent procedure and are not the subject of this finding.

Applicants are required to complete an *Application for Clearance and Issuance of Identification Card*. Central Office applications are processed by the Central Office, Special Investigation Division (SID) and correctional facility applicants are processed by the respective correctional facility SID field unit. The background checks are conducted based on the name, date of birth, and social security number provided on the application. The results of the background check is one factor used to determine if an applicant is suitable for employment or performing volunteer services for the department.

If the background check does not disclose a criminal history, an ID card issued by Central Office may be honored by all DOC facilities, while an ID card issued by a correctional facility shall be honored at that specific facility and may be honored at other facilities with the approval of the administrator or designee of the other facility.

In addition to the above, each new staff member, temporary employee, volunteer, contract vendor, or staff member who has had a break in service will be fingerprinted when they report to an identification office for an identification card. The fingerprint process determines whether the individual has a criminal history on the Federal Bureau of Investigation's Identification Division database or the State Bureau of Identification database at the Division of State Police. Fingerprinting transcend state lines and jurisdictions, provides current updates of criminal activity, and is more reliable than the extensive, computerized, criminal background check. Our review on June 16, 2011 noted 647 individual's fingerprint cards at the DOC Central Office, dating as far back as September 22, 2010, that had not gone through the fingerprint process conducted by the State Police and the Federal Bureau of Investigation. These individuals may represent an increased security risk to the correctional facilities. The New Jersey State Police returned the cards with a memo stating they will no longer process ink and roll fingerprint cards from agencies that possess live scan technology. The DOC has live scan technology at six correctional facilities and its correctional officer recruitment office in New Lisbon.

Internal management procedures state there will be a "Correctional Facility Personnel Database" with specific fields of information obtained during the fingerprint process and the database is to be kept current by noting if an individual has terminated. Our review noted that the Central Office utilizes three databases and the facilities have their own database or method of tracking the information. One centralized correctional facility personnel database accessible by all correctional SID units would strengthen the control over those with DOC identification cards.

Recommendation:

We recommend that the department promptly resolve the issue involving the 647 unprocessed fingerprint cards. The department should consider implementing a regional live scan technology process for all civilian applicants and reduce the effort necessary for the extensive, computerized, criminal background checks and the effort required by the New Jersey State Police. We also recommend the department implement one centralized correctional facility personnel database.



Department of Corrections Office of Information Technology

Technology security can be improved with formal policies and procedures.

The Department of Corrections utilizes 22 computer applications throughout its operations. We reviewed selected general controls for the Department of Corrections Network (DOCNET) along with three applications; iTAG, an inmate tracking and inmate financial application, Timepoint, a custody scheduling application, and DEPTCOR ERP, a multi-use application for DEPTCOR's operations. The general controls reviewed included security management, logical access, and change management. Users of these applications, except for the State Parole Board for iTAG, must log into DOCNET before they are able to log into the application needed.

DOC's DOCNET policy states that "user accounts may be disabled if unused for sixty (60) days, and deleted if unused for ninety (90) days."

The Department of Corrections Office of Information Technology (DOC-OIT) does not have formal written and approved policies for granting new access, changing user access, and removing user access for their applications. Our review of the DOC-OIT noted the following.

- iTAG and Timepoint do not indicate when the user last logged onto the application; however, there were 2,208 and 37 iTAG and Timepoint users, respectively, who have access rights to the applications and were either inactivated or deleted in DOCNET. Twenty-three iTAG users and five Timepoint users are former employees who were terminated in calendar years 2010 and 2011 and still had access to the applications.
- There were 12 employees with Timepoint access who did not have the proper user rights since they were transferred to a different facility or received a title change.
- There were 21 users with DEPTCOR ERP access who left DEPTCOR. One employee, who retired from the DOC in 2003, had his account logged into in 2011. In total, 35 of the 54 users of the application have not logged into DEPTCOR ERP since January 1, 2011, including three users who have never logged into the application.

Users of all three applications are also not required to change passwords and the applications do not lock a user out if their password is entered incorrectly a certain number of times. As a result, users who should not have access may have the ability to manipulate and change data within the application.

The department has no written policy to provide guidance on changes to its network or applications. Even though IT changes are documented in Microsoft Excel, IT standards state the implementation of changes should be controlled by the use of a formal change control procedure. The policy should consist of defining and communication procedures, prioritizing and authorizing changes, planning and testing, tracking status of changes, and establishing a fallback plan. Inadequate control of changes to information processing facilities and systems is a common cause of system or security failures.

DOC databases are backed up by the State of New Jersey Office of Information Technology; however, there is no written disaster recovery plan that exists for the DOC-OIT. Disaster recovery plans are vital in keeping information technologies running in case of an unplanned interruption. In the event of a disaster, recovery could be impaired by the lack of a written plan. An adequate level of internal control to ensure the safeguarding of assets would dictate a comprehensive plan is written and testing is documented.

Recommendation

We recommend the department create formal and approved written policies to address creating, changing, and removing user access to its applications. A review of the user accounts for the various applications should be performed to determine if all users have proper access rights to

the applications. The department should also develop a written change management policy in accordance with accepted IT standards and a written disaster recovery plan that details the policies and procedures regarding possible interruptions of its network and applications.



Other Matters

Project P.R.I.D.E.

Time reporting controls should be enhanced.

At an annual cost of approximately \$250,000, Project P.R.I.D.E., Promoting Responsibility In Drug Education, brings minimum custody offenders, escorted by correction officers, into middle schools and high schools or other agencies to talk about their personal experience with drugs and alcohol. A typical Project P.R.I.D.E. presentation has four inmates, two male and two female. Young people have an opportunity to hear real-life stories and to consider the consequences of substance abuse. The program is designed to reduce the appeal of drugs and alcohol and to promote positive decision-making skills. Our review noted a lack of time reporting controls for the program's coordinator.

The program coordinator handles all the duties for the program including scheduling and monitoring the presentations. The individual works on a flex time schedule, making his own hours, even though the Department of Corrections does not have a flex time policy. Many presentations are at night or weekends and a significant distance from Central Office, his official station, so a regular 8:00 a.m. to 4:00 p.m. schedule is not feasible. However, a lack of proper tracking and accountability of time worked increases the risk of incorrect time reporting.

Commissary Financial Statements

Salary and benefit costs should be uniformly applied to all facilities.

An inmate commissary is an institutional store through which inmates may make discretionary purchases of items such as food, cigarettes, stamps, stationery, and personal hygiene products. The business office of each facility is responsible for the accounting and financial reporting of the inmate commissary activity. Inmate purchase requests are submitted to the business office for review of content and availability of funds. If approved, funds are withdrawn from the inmate's account and the request is forwarded to the commissary for processing. Requests received in the commissary are filled by the storekeeper or inmate staff, then picked up by or delivered to the inmates. Under the supervision of the business manager, storekeepers and inmate staff operate the commissary. Our review noted that there is no consistency among the DOC business managers with regards to the allocation of the storekeepers' salary and fringe benefit costs on the financial statements. While some business managers include all of the storekeepers' salaries and fringe benefits as part of reported expenditures, others include only a portion. The non-reporting of all the expenditures has been reported in the commissary audits performed by the DOC's Bureau of Internal Audit.

Inmate commissary profits are transferred to the facility's Welfare Fund for the benefit of the general inmate population. The amount of profit is directly affected by the salary and fringe benefit costs included in the expenditures. Per the DOC, the inmate commissary profits are the largest source of income for the Welfare Fund.

Residential Property

A plan for all residential properties should be established.

The Department of Corrections currently has 28 residential properties located on the grounds of six facilities and Agri-Industries. Five of the residences are occupied by Agri-Industries staff, two are used for training classrooms and two are occupied by the department's Special Investigation Division.

The department is currently researching the possible sale of seven of the properties, one of which is currently being utilized as a training classroom. Three other properties can not be sold because of an ongoing issue with the host municipality; one is currently being utilized by an Agri-Industries employee. The department has no plans for the remaining 11 vacant properties. Vacant properties have an increased risk of damage, vandalism, and liability.

Recommendation

We recommend the department establish controls over the Project P.R.I.D.E. to ensure accountability for the program coordinator's time reporting. In addition, we recommend the department create a policy to ensure consistency in the reporting of Inmate Commissary Fund expenses so that actual profits are transferred to the Welfare Fund. We further recommend the department establish a plan for all of their residential properties, including vacant properties.

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April 19, 2012

John J. Termyna
Assistant State Auditor
Office of the State Auditor
125 South Warren Street
P.O. Box 067
Trenton, New Jersey 08625-0067

Dear Mr. Termyna,

I have reviewed the Confidential Draft Audit Report for the Department of Corrections, Central Office performed by your office for the period of July 1, 2009 to January 31, 2012. Thank you for the opportunity to respond and provide comments to your office prior to the release of the Final Audit Report. While I agree with the recommendations detailed in the report, it should be noted that during the audit period new Directors were hired for three units under audit review and a reorganization of the financial staff assigned to the Revolving Funds took place.

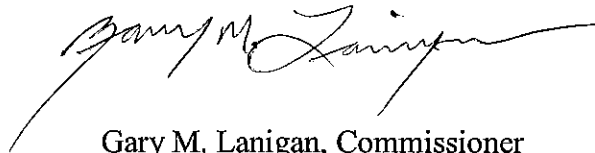
Relating to successful objective measurements for the Revolving Funds, the Department, in concert with other law enforcement agencies and NJ Office of Information Technology, is developing a comprehensive shared data warehouse which will provide the means to analyze recidivism, program efficacy and other management metrics. At this time, it is not determined if inmate work assignments will be included in the initial data set used to analyze recidivism. However, a recent recidivism analysis of all inmates discharged in 2007 indicates that they return to incarceration at a rate of 37.0% over three years. The subset of inmates who were exposed to Agri-Industries and DEPTCOR training; returned at a rate of 25.2% and 21.6% respectively for the same period. Please note that prison work assignment is only one factor of many affecting recidivism rates.

In response to the remaining recommendations, the Department has undertaken measures to address, develop and implement solutions. Through the use of information technology, documentation, improved oversight and reporting, the current management structure will

demonstrate, at your Compliance Review that it has made significant progress or completely resolved all deficiencies indicated in the audit report.

In closing, I would like to thank your audit staff. Their diligent work and professionalism exhibited during the audit is appreciated.

Very truly yours,

A handwritten signature in black ink, appearing to read "Gary M. Lanigan", with a long, sweeping horizontal line extending to the right.

Gary M. Lanigan, Commissioner
NJ Department of Corrections