

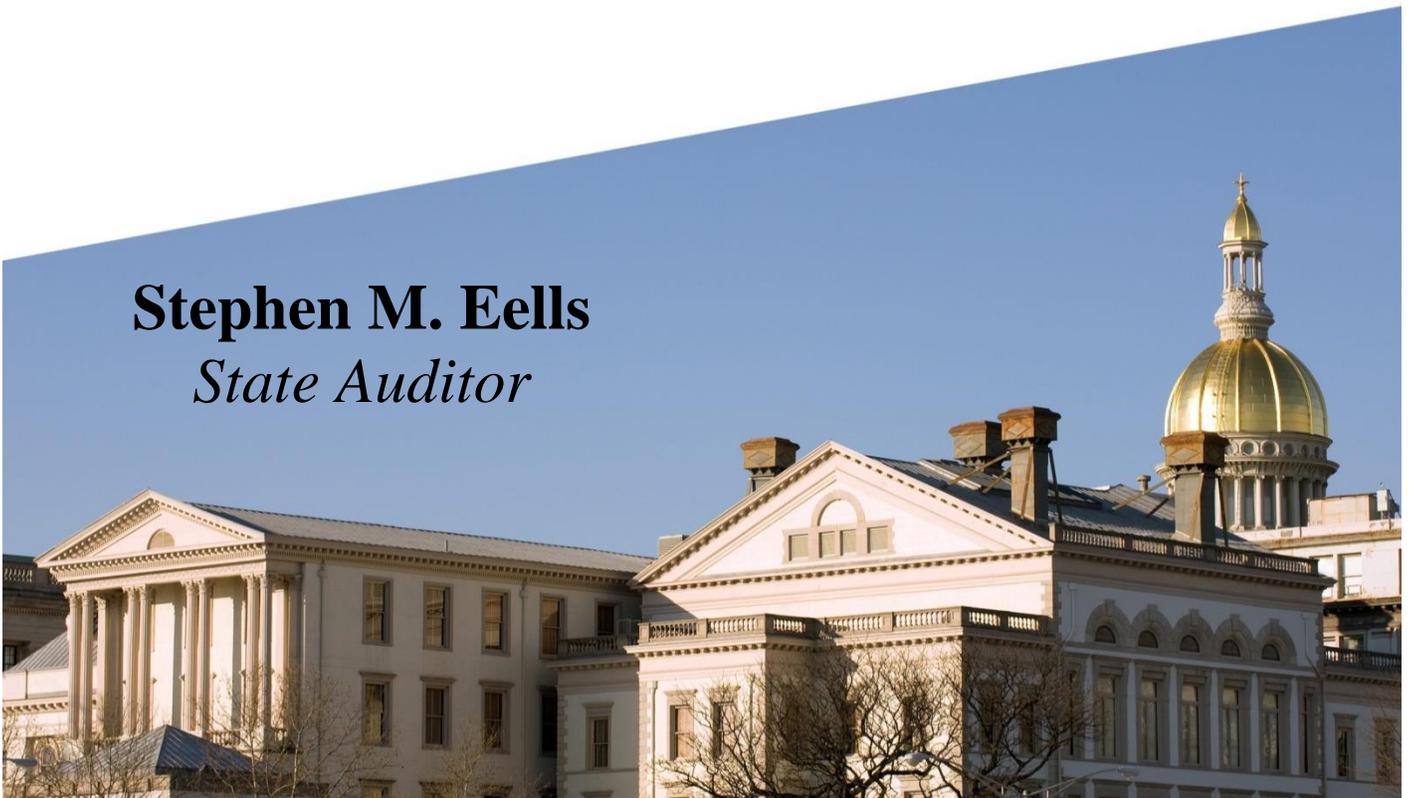


New Jersey Legislature
★ *Office of* LEGISLATIVE SERVICES ★
OFFICE OF THE STATE AUDITOR

Department of Corrections
Northern State Prison

July 1, 2015 to December 31, 2017

Stephen M. Eells
State Auditor



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Enclosed is our report on the audit of the Department of Corrections, Northern State Prison for the period of July 1, 2015 to December 31, 2017. If you would like a personal briefing, please call me at (609) 847-3470.

A handwritten signature in black ink, appearing to read "Stephen M. Eells".

Stephen M. Eells
State Auditor
February 21, 2019

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Scope

We have completed an audit of the Department of Corrections (department), Northern State Prison (prison) for the period July 1, 2015 to December 31, 2017. Our audit included financial activities accounted for in the state's General Fund. We did not audit the financial transactions of the non-appropriated funds since they are audited by the department's internal audit unit. Additionally, inmate medical expenditures averaged \$20.0 million annually during the audit period and were also excluded from the scope since that program was audited separately in our report dated June 8, 2016. Excluding these transactions, annual expenditures of the prison averaged \$71.0 million during fiscal years 2016 and 2017. Annual revenues of the prison averaged \$1.9 million during fiscal years 2016 and 2017. Receipts from sales in the commissary represent the major component of revenue. These receipts are also audited by the department's internal audit unit and were excluded from our scope.

The mission of the department is to protect the public by operating safe, secure, and humane correctional facilities. As of December 31, 2017, there were 2,412 male offenders committed to the prison.

Objectives

The objectives of our audit were to determine whether financial transactions were related to the prison's programs, were reasonable, and were recorded properly in the accounting systems. A further objective was to determine if the prison was compliant to department requirements.

This 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. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

In preparation for our testing, we studied legislation, the administrative code, circulars promulgated by the Department of the Treasury, and policies of the department. Provisions we considered significant were documented, and compliance with those requirements was verified by interview, observation, and through our testing of financial transactions. We read the budget messages, reviewed financial trends, and interviewed prison and department personnel to obtain an understanding of the programs and the internal controls.

A nonstatistical sampling approach was used. Our samples of financial transactions were designed to provide conclusions on our audit objectives as well as internal controls and compliance. Sample populations were sorted and transactions were randomly and judgmentally selected for testing.

Conclusions

We found that the financial transactions included in our testing were related to the prison's programs, were reasonable, and were recorded properly in the accounting systems. Additionally, we found the prison was generally compliant with department requirements. In making this determination, we noted deficiencies concerning employee overdrawn leave balances, compliance requirements related to employee outside activity/employment guidelines, and internal control deficiencies over procurement that merit management's attention.

Employee Overdrawn Leave Balances

Procedures for tracking employee overdrawn leave balances need to be strengthened.

The Time and Leave Recording System (TALRS) credits employees with a full-year leave allotment at the beginning of the calendar year under the assumption that they are going to work the entire year. However, some employees overdraw their leave balances when they do not work enough days during the year to earn the time credited. This creates a debt that the employee owes to the state for the dollar amount of overdrawn leave that must be recouped in accordance with N.J.A.C. 4A:6-1.5. If the employee is still employed by the state, the debt is either satisfied through a scheduled payroll deduction or full reimbursement from the employee. The assigned payroll clerk at the prison's regional personnel unit calculates the amount due from each employee and initiates the collection process. If the state employment has terminated and after 90 days of non-repayment, the debt should be submitted to the Department of the Treasury, Division of Revenue and Enterprise Services (DORES) for further collection efforts as per Department of the Treasury Circular No. 13-11-OMB. From a population of 70 employee accounts with negative sick leave balances totaling \$69,000 that carried forward into 2017, we judgmentally selected a sample of 20 overdrawn leave balances totaling \$41,300 for testing. The results of our testing and review of the internal controls disclosed the following.

- Two separated employees still had original overdrawn balances older than 90 days and the debt had not been submitted to DORES for collection. One employee retired July 2018, and the other employee resigned September 2017. The last time the prison submitted its employee-related overdrawn leave balances to DORES was in August 2014. Of the remaining 18 employees, five employee payments (28 percent) did not agree with the TALRS recoupment (overdrawn leave time adjustments) entries, resulting in employee underpayments of \$1,800.
- The assigned payroll clerk prepares employee debt calculations, collects the overpayment from the employee, and enters the recoupment to the leave records (TALRS). Proper internal controls require these duties be segregated to decrease the risk of undetected errors.
- There were no supervisory approvals for employee debt calculations, cash collections, and TALRS recoupment entries.
- The payroll clerk's calculation of individual employee debt is calculated manually and is at risk to errors in comparison to the utilization of an electronic worksheet template. We found three employee debts were manually calculated in error. In December 2018, the department was in the process of providing an electronic worksheet template to the prison's regional personnel unit.

Recommendation

We recommend the prison's regional personnel unit submit employees' debt to DORES timely as required by the circular. We also recommend the prison recoup the remaining amounts from the five employees whose payments did not satisfy the TALRS negative leave balances. Additionally, the duties over preparation of employee debt calculation, cash receipts collections, and leave record recoupment entries should be properly segregated. Supervisors should review and approve transactions of the payroll clerk for employees with overdrawn leave balances.



Outside Activity or Employment Questionnaire

Approximately 27 percent of the prison's employees did not submit a completed Outside Activity or Employment Questionnaire.

In accordance with Department of Corrections Policy Statement No. ADM.013.001, all department employees, when initially hired, every three years, or when there is a change in outside activity or employment, must complete the New Jersey Department of Corrections Questionnaire for Approval for Outside Activity or Employment form. Furthermore, to indemnify the department against legal actions, the policy also requires a signed and notarized waiver for those employees (generally for correction officers) "who will use or possess a firearm while engaged in any outside activity or employment."

Our review of the questionnaire listing provided to us by the department's regional personnel unit for the last three-year cycle disclosed that only 153 of the 802 (19 percent) active employees as of September 2017 completed their questionnaire. In addition, a cross-match of prison employees with outside employment, as reported on the Department of Labor and Workforce Development's Wage Reporting System, disclosed that 25 employees had at least one outside job (quarterly earnings greater than \$5,000) during the third quarter of calendar year 2017. Of those 25 employees, 24 were correction officers, and only 10 (42 percent) completed the questionnaire.

Per the policy, employees of the New Jersey Department of Corrections are prohibited from pursuing any outside activity or employment without the express permission of the department's Ethics Liaison Officer. In October 2018, the department's Ethics Liaison Officer provided us updated statistics in which 35 percent (a 16 percentage point improvement) of the prison employees properly completed the questionnaire, 38 percent submitted questionnaires that were returned by the Ethics Liaison Officer for further completion, and the remaining 27 percent did not submit one at all. Furthermore, the policy did not address any follow-up procedures when employees are delinquent in submitting their questionnaire. Failure to disclose outside employment to the prison increases the risk of conflicts of interest or possible legal action against the department for those employees carrying firearms during outside employment.

Recommendation

We recommend that the department and the prison enforce the policy over outside activity or employment. We also recommend that the department amend the policy to address delinquent questionnaires.



Internal Controls

Internal controls over procurement need improving.

Management is responsible for establishing and maintaining internal controls that safeguard assets from loss and unauthorized use. Proper segregation of duties and maintenance of accurate and complete documentation are necessary to assure the proper use of resources. We identified the following internal control weaknesses over procurement.

- In our random sample of 34 expenditure transactions, we found 10 (29 percent) had the same person both requesting the items and/or services and directly receiving them. Adherence to proper segregation over procurement is cited in the department's internal management procedure.
- There are only two credit card (P-card) users. One is issued to the Business Manager who makes both P-card purchases and processes the payments. There are no supervisory approvals over these transactions. The Department of the Treasury Circular No. 17-07-DPP stipulates that duties over credit card transactions should be separated.
- The prison was charged an average \$90,000 per month, or \$1.1 million in fiscal year 2018, for water and sewage utilities. We found the prison's maintenance department does not analyze or approve the monthly bills prior to their payment or determine if water consumption was reasonable based on monthly meter readings. Any unusual water meter readings caused by water leaks, faulty water meters, and/or excessive water usage may not be detected timely since the maintenance department does not review the monthly water bills. In addition, we noted five instances in which the business office did not pay the bills timely, resulting in \$6,000 in late fees for fiscal years 2016 to 2018. Per the Department of the Treasury Circular No. 11-23-OMB, superseded by No. 19-07-OMB, the prison is exempt from paying late fees to government entities or public utilities.
- The prison utilizes a postage meter machine that is periodically replenished electronically. Anticipated postal charges should be accurately reflected on the Treasury Account Billing System (TABS) which is monitored by the department's fiscal management. We found postal charges totaling \$98,600 for fiscal years 2013 to 2018 were incorrectly charged to another state department and not detected by the Department of Corrections' fiscal management.

Recommendation

We recommend the prison strengthen internal controls over procurement by not allowing the same person to request items and/or services and directly receive them. The Business Manager's P-card transactions should be approved by a supervisor. We also recommend the prison's maintenance department analyze and approve the monthly water bills to determine the reasonableness of water usage. The prison should recoup the late fees it paid the water utility. Furthermore, we recommend the department review the TABS system for misidentified postal charges.





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Acting Commissioner

February 15, 2019

John J. Termyna
Assistant State Auditor
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125 South Warren Street
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Dear Mr. Termyna,

I have reviewed the audit report of the New Jersey Department of Corrections (NJDOC), Northern State Prison (NSP) performed by your office for the period of July 1, 2015 to December 31, 2017. Thank you for the opportunity to respond and provide comments to your office prior to the release of the audit.

Our understanding of the objectives of the audit was to determine whether financial and personnel related transactions related to the facility's programs, were reasonable, and were recorded properly in the appropriate systems. The following is in response to the findings and recommendations outlined in the audit.

Employee Overdrawn Leave Balances

The NJDOC Region 2 Office of Human Resources (HR) is responsible for all related HR activities for Northern State Prison, East Jersey State Prison and the Adult Diagnostic and Treatment Center. An active employee pool of more than 1,800 individuals. This region has undergone severe staffing issues since July, 2015. There has been a turnover of ten out of the initial eleven staff, leaving just one staff person with any longevity at this large region. As a result of this inexperienced staff, since the incoming staff have no Departmental background, nor knowledge of our systems and procedures, a significant backlog in many areas does exist.

Overdrawn balances:

- HR is in the process of obtaining the appropriate access to the DORES program for the new Payroll Supervisor. The remaining two payroll staff will be trained on submission, and once the third payroll position (currently vacant) is filled, that employee will also be trained. These actions will provide the Region 2 HR office with the appropriately trained staff to follow-up on the outstanding collection of overdrawn leave time, as well as all other aspects of the payroll process.

Segregation of duties for collection/time credit:

- The newly hired Payroll Supervisor and payroll staff (current and future) are in the process of being trained. The payroll staff will submit calculations to NJDOC staff notifying them of their overdrawn leave time. The Payroll Supervisor will be responsible for entering the recouped leave records as appropriate. This will provide a proper segregation of duties for this task.

Supervisory approvals:

- Since the Payroll Supervisor position has now been filled, HR has a supervisory layer of approval for the employee debt calculations, cash collections and TALRS recoupment entries.

Manual calculation of debt (errors):

- HR Standard Operating Procedure (SOP) #5 - Overdrawn Leave Balances, is being revised to include updated language regarding this topic. Also, an excel spreadsheet template has been created to accurately calculate overdrawn balances.

In summary, the actions noted above will assure the regional personnel unit will submit debt to DORES timely, as required by the circular, as well as recoup the remaining amounts from the five employees whose payments did not satisfy the TALRS negative leave balances. Proper segregation of duties with respect to all aspects of the payroll process including but not limited to employee debt calculations, cash receipt collections, and leave record recoupment entries will be implemented. In addition, Supervisors now review and approve all transactions of the payroll clerk for employees with overdrawn leave balances.

Outside Activity or Employment Questionnaire

The following information is provided with respect to the corrective actions taken to rectify the noted deficiencies regarding the reporting of outside activities or secondary employment:

- At the start of each reporting cycle, the Office of Equal Employment Division's (EED) ethics assistant will conduct an in-person meeting with the Human Resources staff (HR) responsible for disseminating/collecting the Outside Activity Questionnaires (OAQ).
- A tracking system has been created and will be updated as OAQs are received.

- EED will be sending follow-up reminders to ensure that incomplete OAQs are completed and returned to either EED or HR.
- Employees will be advised that failure to submit an OAQ may result in remedial action(s).

These steps will improve the overall tracking and oversight of the Outside Activity or Employment Questionnaire process. Also, EED has revised ADM.013.001 to address how the NJDOC handles delinquent questionnaires. At the time of this response, the revised ADM.013.001 is in the review process pending final signature approval.

Internal Controls

The following information is provided with respect to the corrective actions implemented to rectify the noted deficiencies regarding the internal control weaknesses:

Receipt of goods:

- All NSP staff have been advised of this finding and will assure that any individuals signing for the request of goods and/or services will not be the same individual to sign for the receipt of said goods and/or services. This will ensure a proper segregation of duties. In addition, the Division of Administration's Office of Financial Management will routinely review the facilities expenditure transactions to confirm compliance. Also, the Division of Administration will routinely conduct department-wide training on procurement policies and procedures.

P-Card approvals:

- The Business Manager at NSP is currently in the process of requesting a P-Card for the Section Supervisor (second-in-charge). Once the new P-Card is issued and received at NSP, the Business Manager will cancel her P-Card. The Business Manager will then review and approve all P-Card transactions processed on the Section Supervisor's card. In the meantime, all transactions made on the Business Manager's P-Card will be reviewed by her immediate supervisor.

Utility charges/Late fees:

- The Business Office will review all water and sewage bills with the facilities maintenance staff to ensure the usage billed for water consumption is appropriate and consistent with previous invoices. Additionally, the Business Office will develop an electronic spreadsheet to accurately record and track the monthly consumption as well as the associated charges.
- With regards to the late fees, the Business Manager at NSP had previously worked with the Newark Water Department to improve the receipt of the monthly water bills. The bills are expected to be paid by the first of each month, yet the bills were being received in the Business Office approximately 2-3 weeks into the month. With little time to process the payments, along with the fact that the Newark Water Department

does not accept Automated Clearing House (ACH) payments, the actual receipt of the check from Treasury at times ran past the first of the month, resulting in the late fees. The Business Manager had contacted the water company and now receives the invoices through email, therefore providing adequate time for processing the payment.

In addressing the late fee payments, the Department has also contacted the Newark Water Department through correspondence along with telephone discussions. According to the Newark Water Department, their Legal Staff is currently reviewing and researching this matter to determine an appropriate resolution. The Department will continue to pursue this matter with the Newark Water Department.

Postage Meter:

- The NJDOC's Budget staff at Central Office are the only individuals with access to the Treasury Account Billing System (TABS). The Office of Financial Management will implement procedures for Budget analysts to review the TABS reports and ensure that all charges are accurate and consistent with the equipment, or services, received and utilized by each NJDOC facility.

In closing, I would like to thank your audit staff for their continued diligent work and professionalism exhibited during the audit.

Very truly yours,



Marcus O. Hicks, Esq.
Acting Commissioner

RSB:maa

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Bettie Norris, Deputy Commissioner
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Michelle Ricci, Assistant Commissioner, Division of Operations
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