STATE OF CONNECTICUT

AUDITORS' REPORT
DEPARTMENT OF CORRECTION
FOR THE FISCAL YEARS ENDED JUNE 30, 2000 AND 2001

AUDITORS OF PUBLIC ACCOUNTS

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September 17, 2002

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We have made an examination of the financial records of the Department of Correction for the fiscal years ended June 30, 2000 and 2001. This report on our examination consists of Comments, Recommendations and Certification which follow.

The financial statement presentation and auditing of the books and accounts of the State are done on a Statewide Single Audit basis to include all State agencies including the Department of Correction. This audit examination has been limited to assessing compliance with certain provisions of financial related laws, regulations, contracts and grants and evaluating internal control structure policies and procedures established to ensure such compliance.

COMMENTS

FOREWORD:

The Department of Correction (DOC) operates under Title 18, Sections 18-7 through 18-107 of the General Statutes. It defines its mission as protecting the public, protecting staff, and assuring a secure, safe environment for offenders in a climate that promotes professionalism, respect, integrity, dignity and excellence.

The Department is headed by a Commissioner who is responsible for the administration, coordination and control of the operations of the Department and for the overall supervision and direction of all institutions, facilities and activities of the Department. John J. Armstrong continued to serve as Commissioner during the audited period.

Agency business operations are located within its administrative offices in Wethersfield.

The Department operates 18 correctional facilities, of which, 13 are correctional institutions and five are correctional centers.

Institutions- *Cheshire*, *Enfield, Carl Robinson, Williard-Cybulski, Northern, Osborn,* *Manson Youth, Webster, Garner, Bergin, Gates, Brooklyn and York*

Centers- *Bridgeport, Corrigan-Radgowski, Hartford, MacDougall-Walker and New Haven*

Correctional institutions confine sentenced males and sentenced and unsentenced females. Correctional centers primarily serve as intake facilities for unsentenced males and males with sentences of less than two years. Each facility is established at one of four levels of security ranging from level 2, low security, to level 5, high security. Level 1 is for inmates who have been released into the community but are still in the custody of the DOC.

Since the prior audit, there were two mergers of institutions which were located next to each other. The mergers were between Williard and Cybulski located in Enfield and MacDougall and Walker located in Suffield. Also, the Agency recently eliminated organizing its facilities by complexes. This was replaced by having each of the facilities' Wardens report to one of six Lead Wardens. The Lead Wardens report to the Agency's Deputy Commissioner of Operations.

According to Department statistics, total inmate population as of June 30, 2001 was 17,695. Included in the total were 489 inmates held in out-of-State facilities. Total male and female inmate population as of June 30, 2001, was 16,448 and 1,247, respectively. All female inmates are held at York CI.

Board of Pardons:

The Board of Pardons is an autonomous body which operates within the Department of Correction for administrative purposes only. It operates under the authority of Title 18, Chapter 321, Sections 18-24a through 18-30 of the General Statutes.

The Board of Pardons consists of five members, residents of this State, appointed by the Governor with the advice and consent of either House of the General Assembly. The Board members serve six-year terms.

Expenditures for the Board of Pardons totaled $28,629 and $29,153 for the 1999-00 and 2000-01 fiscal years, respectively, and mainly consisted of contractual services for the Board's secretary.

RÉSUMÉ OF OPERATIONS:

General Fund Revenues and Receipts:

General Fund revenues and other receipts of the Department of Correction for the audited period and the prior year were as follows:

	Fiscal Year Ended June 30,		
	2001	**2000**	**1999**
Restricted contributions, Federal	$5,672,030	$ 7,675,104	$10,706,174
Restricted contributions, other than Federal	808,012	927,396	3,438,958
Refunds of prior year's expenditures	684,800	1,326,669	674,099
Refunds of current year expenditures	2,310,357	2,457,554	2,168,436
Board of inmates in jail	4,819,343	2,884,255	2,540,136
All other revenue	447,040	307,400	318,432
Total General Fund Revenues and Receipts	**$14,741,582**	**$ 15,578,378**	**$19,846,235**

The decrease of $4,267,857 in receipts for the 1999-00 fiscal year, as compared to the 1998-99 fiscal year, can be attributed to two factors. One factor was that during the 1998-99 fiscal year, State Criminal Alien Assistance Program (SCAAP) funds delayed from the previous year, totaling $2,446,619 were received in addition to the funds awarded for that year. Thus, there was a decrease in the 1999-00 fiscal year total funds received since Federal SCAAP funds were received for only one year's award. Another factor regarding the decrease for the 1999-00 fiscal year, under the category of restricted contributions, was the transfer of $2,660,959 in funds invested in the State Treasurer's Short Term Investment Fund (STIF) to the General Fund during March 1999. This was done as part of closing the Correctional General Welfare Fund as a local account and transferring it to the General Fund as a restricted account.

The decrease in Federal restricted contributions for the 2000-01 fiscal year by approximately $2,000,000 can be attributed to two significant factors. One factor was a decrease in available SCAAP funding. Another factor was the expiration of funds available from Violent Offender Incarceration and Truth-in-Sentencing (VOITIS) Grants. No VOITIS funds were available during the 2000-01 fiscal year as compared to $1,155,110 received during the1999-00 fiscal year.

Another category showing a significant increase for the 2000-01 fiscal year was "board of inmates in jail". Under agreement with the United States Immigration and Naturalization Service (INS), the DOC receives reimbursement for holding INS detainees. The number of detainees increased substantially during the 2000-01 fiscal year along with 13 monthly payments received during 2000-01 as compared to 11 monthly payments for the 1999-00 fiscal year.

General Fund Expenditures:

General Fund expenditures for the Department of Correction are summarized below:

	Fiscal Year Ended June 30,		
	2001	**2000**	**1999**
Budgeted Accounts:			
Personal services	$310,461,327	$306,817,142	$271,603,625
Contractual services- Medical fees	68,334,710	57,808,747	49,561,273
Contractual services- All other	41,798,388	33,538,062	27,150,016
Commodities- Food	13,222,691	12,849,810	12,490,200
Commodities- All other	18,495,515	21,669,012	19,946,831
Workers' Compensation	19,574,931	15,333,413	13,904,423
Sundry Charges	3,439,921	3,489,100	3,179,112
State Grants-Residential (Halfway houses) and Non-residential community services	17,174,867	16,175,987	12,683,547
Other State Grants	981,670	893,077	871,380
Equipment	467,299	2,170,636	3,385,914
Total Budgeted Accounts	493,951,319	470,744,986	414,776,321
Restricted Accounts:			
Federal accounts	2,649,198	4,029,837	4,370,162
Other than Federal Accounts	1,205,800	997,466	680,408
Total Restricted Accounts	3,854,998	5,027,303	5,050,570
Total Expenditures	**$497,806,317**	**$475,772,289**	**$419,826,891**

The increase in personal services by $35,213,517 for the 1999-00 fiscal year was due to several factors. There was an additional (27th) pay period for the fiscal year, an increase in staffing reflecting an approximate five percent increase in the number of inmates during the year and annual salary increases for employees under collective bargaining agreements and also for managerial/confidential employees. Personal services increased by $3,644,185 for 2000-01 reflecting annual salary increases offset by one less pay period for the fiscal year.

There were also significant increases in contractual services, for both “medical fees” and “all other”, during the audited period. The DOC has a memorandum of understanding with the University of Connecticut Health Center (UCHC) to provide a comprehensive managed care program for the care of inmates. Payments to UCHC are in the form of expenditure transfers and are coded as medical fees. Medical fees increased by $8,247,474 and $10,525,963 for the 1999-00 and 2000-01 fiscal years, respectively. The increases were due to several factors. These include annual salary increases for UCHC staff, the growth in pharmaceutical expenses for HIV/AIDS treatment and psychotropic medications and the increased use of contracted medical services to provide mental health services.

All other contractual services increased by $6,388,046 and $8,260,326 for the 1999-00 and 2000-01 fiscal years, respectively. A significant part of the increase can be attributed to the board and care of prisoners. Beginning in the 1999-00 fiscal year, the Agency contracted with the Commonwealth of Virginia to house inmates due to overcrowding at State facilities. At the rate of $64 per diem, Agency expenditures in this area were $5,343,856 and $10,927,743 for the 1999-00 and 2000-01 fiscal years, respectively.

The Agency additionally purchased equipment through the Capital Equipment Purchases (1872) Fund totaling $2,008,661 and $3,404,770 for the 1999-00 and 2000-01 fiscal years, respectively.

Correctional Industries Fund:

The Correctional Industries (4003) Fund accounts for the operations of Correctional Enterprises of Connecticut (CEC) and inmate institutional commissaries. CEC produces goods and/or services through inmate labor that are sold primarily to other State agencies. CEC may also sell items to other governmental agencies or private nonprofit entities. The institutional inmate commissaries sell various personal supplies and food items to inmates. Funds are transferred from the individual Inmates' Fund accounts to the 4003 Fund when inmates purchase commissary items. A summary of cash receipts and disbursements for the 4003 Fund for the audited period follows:

	CEC	Commissary	Total
Cash Balance, July 1, 1999	**$3,141,622**	**$3,604,225**	**$6,745,847**
Receipts	6,078,794	12,202,354	18,281,148
Disbursements	7,887,157	11,695,999	19,583,156
Cash Balance, June 30, 2000	**1,333,259**	**4,110,580**	**5,443,839**
Receipts	9,681,981	12,792,409	22,474,390
Disbursements	9,787,998	12,405,800	22,193,798
Cash Balance, June 30, 2001	**$1,227,242**	**$4,497,189**	**$5,724,431**

The large increase in cash receipts and disbursements for the 2000-01 fiscal year was due to marker shop activity for the State's license plate replacement program. Marker shop sales were over $4,200,000 in the 2000-01 fiscal year, an increase of approximately $2,340,000 from the prior year with a corresponding increase in operating expenses. This was due to the State replacing all marker plates with two plates.

Per Capita Costs:

The weighted average daily per capita cost for the operation of correctional facilities, as calculated by the State Comptroller for the 1999-00 fiscal year was $94. The cost for the 2000-01 fiscal year was unavailable at this writing.

Fiduciary Funds:

The DOC maintains two fiduciary funds, a Special Projects Activity Fund and an Inmates' Fund. Activity Funds operate under the provisions of Sections 4-52 through 4-57a of the General Statutes. The Special Projects Activity Fund accounts for various minor inmate events. Inmates' Funds are custodial accounts for inmates' personal monies.

According to Agency financial statements, cash and cash equivalents for fiduciary funds totaled

$1,533,460 as of June 30, 2001.

Program Evaluation:

Section 2-90 of the General Statutes authorizes the Auditors of Public Accounts to perform program evaluations. Under Section 18-85a of the General Statutes, the Department adopted regulations that went into effect during July 1997 for the assessment of inmates for the costs of incarceration. One provision of the regulations defines the inmates' responsibility for paying the cost of services and programs. Another provision involves assessing sentenced inmates for the cost of incarceration. Our current program evaluation reviews the Agency's efforts to implement the provision concerning the cost of incarceration which was effective on or after of October 1997.

We would note that the Agency initially focused on implementing the assessment of the costs of services and programs which was implemented as of January 1998. Inmates were charged fees/costs for educational programs, health services and drug tests. Such receipts totaled $86,009 and $76,663 for the 1999-00 and 2000-01 fiscal years respectively.

Under the regulations, inmates shall be charged for and be responsible for the cost of incarceration on or after October 1, 1997. The assessed cost of incarceration is based on the inmate per capita cost, per diem, as calculated by the State Comptroller. Initially, the rate was according to the specific correctional facility to which the inmate was assigned. The regulations were amended, effective November 6, 2001, changing the assessed rate for each inmate to the average inmate per capita cost of all DOC facilities. Using the most recent available per capital cost, $94 per diem for the 1999-00 fiscal year, the assessed cost of incarceration for an inmate for one year at all DOC facilities would currently be approximately $34,000.

The DOC is not directly involved in collecting amounts owed for the cost of incarceration. During December 1998, the Agency entered into a memorandum of understanding with the Department of Administrative Services' Fiscal and Administrative Services Resources Business Center (FAR). FAR provides collection services for collecting the cost of incarceration from inmates with the DOC providing access to its inmate database. FAR works with the Attorney General in collecting amounts from inmates with any collections deposited to the General Fund.

The implementation of the cost of incarceration has been an ongoing project for the DOC. Initial collections totaled $12,800 for the 2000-01 fiscal year and $95,384 for the 2001-02 fiscal year through mid-March 2002. Various issues have arisen including developing an automated system to track the amounts owed by inmates. This was made more difficult with the changes in per capita cost rates prior to the establishment of a uniform rate noted above and the requirement to calculate the cost based on the inmate's maximum release date. Currently, the DOC prepares a manual calculation of the amount owed when requested by FAR. Additional issues in implementing the regulations involved determining what portion of the inmates assets are due to the State. This was clarified through Public Act 01-129, effective June 28, 2001, which allows the State to collect money inmates owe for the cost of incarceration from their estates after their death or from money or property they obtain through lawsuits or inheritance.

As noted above, the Agency's implementation of the cost of incarceration has been an ongoing process with actual collection responsibility handled by FAR and the Attorney General. However, our review of the Department's role found the following:

Criteria: Section 18-85a-4 of the Regulations concerning the Department of Correction states that the inmate's responsibility to pay the assessed cost of incarceration shall be discharged in part by a ten percent deduction from all deposits made to an individual account including deposits made from work assignments. Under Section 18-85a-2 of the Regulations, inmates shall be charged for the costs of incarceration on or after October 1, 1997.

Condition: As of April 2002, the Agency has not been deducting ten percent from inmates' accounts receipts and depositing into the General Fund since the regulations have been adopted. For the four and one-half year period from October 1, 1997 through March 30, 2002, it is estimated that approximately $4,800,000 in inmate account receipts was eligible to be deducted from inmate accounts.

Effect: The Agency has not complied with its regulations on the cost of incarceration.

Cause: The Agency is still in the process of implementing the cost of incarceration including reviewing any legal or collection concerns and developing an inmate tracking system.

Recommendation: The Agency should take the necessary steps to ensure timely compliance with regulations regarding the cost of incarceration by inmates. (See Recommendation 1.)

Agency Response: "The Department of Correction's pre-eminent policy to "protect the public, protect staff, and ensure a secure, safe and humane environment for offenders…" has guided its approach in implementing any legislation that significantly impacts the inmate population and in effect the stability of the operational environment.

The Cost of Incarceration legislation presented a potential impact upon the growing correctional environment. As such the project evolved into a multi-year plan to ensure its manageability both operationally and administratively, and to ensure its fair and consistent application.

The first phase, *Fees for Programs and Services* was developed following the bill's passage and implemented January 1998. The second phase, the computation and collection of the *Cost of Incarceration* has been partially implemented. We have continued to revise our procedures and system requirements as legal and policy issues have been clarified. Windfall collections are being made with the assistance of DAS through an MOU. The final phase, the collection of the *Cost of Incarceration* through an assessment of ten percent on all incoming inmate receipts was not technically feasible until the installation of a new Inmate Trust Accounting System. The installation for the new system was completed at the last field office in March 2001.

The ten percent implementation is currently delayed due to Departmental plans to modify the *Cost of Incarceration* regulation 18-85a-4 to fulfill inmate discharge requirements under sec. 18-93. The modification would change the ten percent to forced savings. This would result in cost savings for the Department by reducing or eliminating Gate Money, but will further delay the implementation due to a need for legislative review."

CONDITION OF RECORDS

Our review of the Department's records revealed several areas requiring improvement or further comment as discussed below:

Property Control:

Criteria: The State of Connecticut's Property Control Manual requires each State agency to establish and maintain adequate and accurate property control records. Such records should provide for complete accountability and safeguarding of assets.

Condition: Software Inventory- Our current review noted improvement in this area although the software inventories still do not contain cost information as required by the State's Property Control Manual.

Warehouse Supplies Inventory- Our test check of warehouse supplies inventories for the North Region showed that inventory records were not accurate.

Annual Inventory Reports- Amounts reported as adjustments, additions and deletions to the numerous Annual Inventory Reports (Form CO59) were not always sufficiently documented. A number of errors were noted on the Correctional Industries Fund reports including the omission of Commissary inventory, costing approximately $1,000,000, from the June 30, 2000 report. Also, the reports for the 2000-01 fiscal year were submitted to the State Comptroller over two months late.

Cause: A lack of oversight to ensure that records are properly maintained contributed to this condition.

Recommendation: The Agency should maintain its property control records according to the State's Property Control Manual guidelines as provided in Section 4-36 of the General Statutes. (See Recommendation 2.)

Agency Response: "Software Inventory - During the 2001-02 fiscal year, tracking mechanisms have been developed to record PC/LAN software programs/licenses. Included in this program is the cost of new software programs. As these programs are activated, reconciliation between SAAAS purchases, the CO-59 report, and the inventories will be done.

Warehouse Supplies Inventory - An increased effort has been implemented in cycle counts and records review. It is our full intention to rectify this shortcoming so that all warehouse locations will reflect a high level of accuracy in their perpetual inventory records.

Annual Inventory Reports - It was discovered during the year end reconciliation of the BOSS Equipment Inventory System that some of the account fiscal year "beginning" balances had changed. Disposals and "asset reactivation" transactions which occur within the same fiscal year alter the BOSS GAAP Report beginning balance, requiring an adjustment from the altered BOSS beginning balance back to the true GAAP beginning balance (and the prior year CO-59 ending balance). Prior to July 1, 2001, it was not common standard practice in the Inventory Control Unit to "screen print" each reactivation transaction to document which reactivation transactions alter the BOSS GAAP beginning balance. Reactivation records will be retained for end of year GAAP balance adjustment and audit trail records.

The omission of the Commissary inventory was corrected as soon as it was identified and was reported on the CO-59 for Fiscal year 2000-01. The error was due to misinterpretation of the requirements of the CO-59 report. The DOC CO-59 for the 2000-01 fiscal year was submitted late due to a change in reporting requirements for Real Property Building Values. DOC spent over four months reconstructing and reconciling the building values data with the new JESTIR System. Because of these issues, the Comptroller's office advised DOC to use the "Tabulated Listing of Buildings" report instead of the JESTIR Building value data."

Payroll and Personnel:

Criteria: Proper internal control would include a system for detecting and correcting payment errors on a timely basis and ensuring compliance with Agency policies and procedures regarding employee attendance.

Condition: Our sample of Department payroll and attendance records revealed the following:

1. Incorrect payroll payments- Our test of payroll found eight (out of 80) instances where the payroll payment was incorrect. The errors involved incorrect postings from the employee's timesheet and incorrect shift and weekend differential and meal allowance calculations. The errors resulted in a net overpayment of $428.

2. Incorrect leave payment upon termination or retirement- Our testing of leave payments to employees upon termination or retirement shows errors in seven out of 25 employees. These errors resulted in underpayments totaling $1,389 and overpayments totaling $805.

3. Lack of follow up on overpayments- We noted three instances, totaling $371, where the Agency did not follow up and collect longevity overpayments that were previously brought to the attention of the

Department's Payroll Department.

4. Shift swapping- Our review disclosed that recently adopted shift swapping policies and procedures were not always being followed. We found instances where shift swap request forms were not signed by two shift Commanders as required. We also noted that not all shift swaps were recorded in the facility's monthly shift swap log and the shift swap payback date was not always documented as completed on the facility's daily roster.

During February 2002, an Agency correctional officer was paid $8,423 in gross wages as the result of a stipulated agreement. The payment was for 38 shifts the officer had worked without pay from October 2000 through September 2001. The officer was ordered to work the shifts without pay since the officer had been previously having other employees work the officer's shift and not working their shift in return. Working a shift without pay was in violation of the Federal Fair Labor Standards Act (FLSA) and thus the Agency was required to pay the officer for the unpaid shifts."

Effect: Erroneous payments were made to employees without timely detection.

Cause: The causes for the above conditions appear to be a lack of adherence to Agency policies and procedures and human error.

Recommendation: The Agency should improve its oversight over payroll matters. (See Recommendation 3.)

Agency Response: "1. Incorrect payroll payments - Staff has been directed to pay special attention to posting from employee's timesheets. Additional training on shift and weekend differential, and meal allowance calculations will be conducted. In addition, the recently established Technical Support Unit will conduct audits and spot checks to ensure that these items are addressed.

2. Incorrect leave payment upon termination or retirement - We do have a procedure manual which encompasses terminations and retirements. To address this condition, we will provide retraining to staff.

3. Lack of follow up on overpayments - We have a recovery journal on the shared drive to track overpayments. We have also developed a procedure to track overpayments that outlines how overpayments are to be addressed. The Technical Support Unit of the Payroll Unit will conduct training.

Shift swapping - We have recently adopted a statewide uniform policy.

Payroll staff data enter what the unit head designee certifies as accurate. Operations audits are done regularly to ensure facilities have proper backup documentation. Changes in shift swapping have been incorporated into the recently negotiated Corrections (NP-4) bargaining unit contract effective July 1, 2001 - June 30, 2005."

Documentation of Continuing Education:

Criteria: Sound business practice requires complete documentation of expenditures including verification that the services were received. Also, Agency procedures for reimbursement for the cost of training require employees completing training to provide a copy of a certificate or other proof of attendance.

Condition: Our review showed that the Agency was not requiring staff to submit certificates or proof of attendance for continuing education

Effect: There is a lack of assurance that Agency staff has actually attended and successfully completed training sessions paid for by the State.

Cause: We were unable to determine why the Agency was not following its procedures for documenting continuing education.

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Recommendation: The Agency should ensure that payments for training courses, conferences or seminars are documented by proof of attendance. (See Recommendation 4.)

Agency Response: "In conformance to sound business practice we will request every staff person who attends training, paid for by the State, to submit proof of attendance. Verification shall be in various forms, including but not limited to CEU certificates, transcripts, and DAS certificates.

Petty Cash Fund Advances:

Criteria: The State of Connecticut's Accounting Manual requires employees receiving travel advances to submit an Employee Request for Travel Reimbursement (Form CO17XP), within five working days from their return from travel.

Condition: Our test check of travel advances from petty cash showed exceptions in nine out of 19 of our sample. These exceptions included three forms that were not dated; three submitted late (two, 20 and 136 days, respectively), and three dated prior to the completion of travel.

Effect: The Agency was not complying with the State Comptroller's procedures for petty cash funds.

Cause: The reasons for the above exceptions were unknown.

Recommendation: The Agency should comply with the State Comptroller's procedures for petty cash funds. (See Recommendation 5.)

Agency Response: "Procedures governing the processing of Travel Authorizations, including Travel Advances, have been strengthened in the past year. Requests for Travel Reimbursements that are late are now followed up with letters sent to the traveler advising them that their CO17XP is overdue. Since this policy has been instituted, Travel Reimbursements are being processed in a timely manner. Also, dates are being watched more closely."

Inmates' Payroll- 4003 Fund:

Criteria: The DOC Administrative Directive 10.1 Inmate Assignment and Pay Plan requires the Correctional Enterprises Manager's approval of a promotion that is recommended by a Shop Supervisor.

Condition: Inmates' payroll- Our review of Inmates' payroll showed a lack of signed approval on forms used to authorize payroll changes. The Correctional Enterprises of Connecticut's form for documenting pay rates does not require the CEC Manager's signature to approve the rate; Commissary's form requires the signature but does not indicate the amount of the raise. Inmate payroll for the 4003 Fund was approximately $510,000 and 580,000 for the 1999-00 and 2000-01 fiscal years, respectively.

Effect: The lack of adequate documentation of authorizations for payroll changes can result in inappropriate payments.

Cause: Forms used to document the amount and approvals of inmate pay do not contain all of the necessary fields as reminders of relevant documentation.

Recommendation: The Agency should document authorizations for payroll changes for the Inmates' payroll. (See Recommendation 6.)

Agency Response: "All locations are now using the appropriate authorization form that requires both the Supervisor's and Manager's signatures. The Commissary pay increases are indicated on the new forms."

Correctional Enterprises- Pricing Policy:

Criteria: The Correctional Enterprises of Connecticut's mission statement provides, in part, for employment of the maximum number of inmates consistent with a net operating income and positive cash flow. According to Section 18-88, subsection (e), of the General Statutes, CEC's products shall be sold at prices comparable with the lowest market prices for products sold outside the institutions. CEC's policy 1.2.7, regarding pricing, provides that goods and services may be priced at less than total cost, with the approval of management.

Condition: We reviewed cost calculations that provide the basis for item pricing for two shops. Calculation errors were noted for one shop. Generally, we noted insufficient analysis of prevailing market prices. Also, management's approval of prices below total cost was not documented.

Effect: Without accurate calculations of item costs, item prices may not fully cover all operating costs and result in a net operating loss.

Cause: A standardized method for calculating prices was not in effect during the audit period.

Recommendation: The determination of prices for all Correctional Enterprises' products and services should be fully documented including approval of prices below cost; accurate cost calculations; and adequate analysis of prevailing market prices. (See Recommendation 7.)

Agency Response: "The determination of prices for all Correctional Enterprises' products and services will be fully documented in CEC's *Bill of Materials, Manufacturing and Non-Manufacturing Overhead, Price Comparisons, and Prices Manual.* It will have accurate cost calculations with an adequate analysis of prevailing market prices. This Manual will be updated annually by CEC. CEC will authorize in writing any prices that do not fully absorb the associated costs."

Correctional Enterprises- Financial Reporting:

Criteria: Financial statements prepared by the Agency for the CEC include footnotes that indicate they are presented on a full accrual basis in accordance with Generally Accepted Accounting Principals (GAAP). Accrual basis accounting recognizes increases and decreases in economic resources as soon as the underlying event or transaction occurs.

Condition: We were informed that raw materials presented on CEC financial statements is cut off approximately a week before the fiscal year end. The corresponding liabilities for raw materials received during the final week of the fiscal year are also not presented. We were unable to determine whether the same cut off was applied to both raw materials and liabilities. The resulting costs of goods sold calculation also omits transactions occurring during the last week of the fiscal year.

Effect: The financial statements are misstated although as liabilities related to inventories were not significant, the misstatements do not appear to be material.

Cause: The Agency's procedures for determining inventory exclude raw material received in the last week of the fiscal year.

Recommendation: The Agency's statements for Correctional Enterprises of Connecticut should be presented in accordance with GAAP. Procedures for accruing liabilities and for proper physical inventory cut-off should be established to fairly present increases and decreases in the fund's economic resources. (See Recommendation 8.)

Agency Response: "The Department feels that our statements are in compliance with GAAP, and there is no material misstatement of financial conditions resulting from the current method of determining year-end inventory. However, in order to avoid even the appearance of misstating the value of inventory, the Department will utilize a June 30th cutoff date rather than the last week of June. Future physical confirmations of inventories will be conducted after June 30th."

Payments for Vehicle Repair and Leasing:

Criteria: Agency procedures require staff to submit an approved purchase requisition to the Agency Business Office for requests for any goods or services.

Department of Administrative Services (DAS) General Letter No. 115 outlines policies for the use of State-owned vehicles. These policies require Agency heads to ensure the efficient use of State vehicles.

Condition: 1. An employee at the Cheshire Correctional Institution used a private vendor to repair a transmission on an Agency dump truck at the cost of $1,250. The employee did not submit a purchase requisition to the Agency Business office to approve the purchase. In addition, no bids were solicited nor did the employee verify whether the truck was covered under a warranty since it only had 2,613 miles on it. The Agency subsequently found the truck was under warranty.

2. Lease payments for an idle vehicle- Our review of mileage reports for

the vehicle leased by the Agency indicated that it was basically idle for at least 6 months, resulting in unnecessary costs totaling approximately $1,100 from the 4003 Fund. We also noted that there were no mileage reports for three of the nine months reviewed.

Effect: The State incurred unnecessary expenses since the truck was covered under a warranty and a leased vehicle remained idle for a lengthy period.

Cause: The unauthorized purchase for repairs was due to an employee failing to follow established Agency purchasing procedures. Regarding the leased vehicle, DOC was aware that it was idle; the Department was reluctant to request the key from a terminally ill employee. Eventually the vehicle was returned to DAS.

Conclusion: The employee responsible for the unauthorized purchase was counseled on the matter and warned that any further failures to follow proper Agency procedures or errors in judgment would result in disciplinary action. Since both matters appear to be isolated incidents, no recommendation is warranted at this time.

Agency Administered Project- Cybulski Correctional Institution Renovations

Criteria: Section 4-52b of the General Statutes allows State agencies to self-administer capital projects under $500,000. Prior to October 1, 1999, the maximum amount was $250,000. In addition, sound business planning would require that the cost of any capital project be reasonably estimated in advance to ensure against any unexpected significant costs and/or cost overruns.

Condition: During April 1996, the Department of Public Works (DPW) gave approval to the DOC to self-administer the project at the cost of $50,000 funded by the General Fund. The project involved renovating six bathrooms at Cybulski CI. The project costs were for materials to move walls and replacing some fixtures. DOC staff provided any labor. During August 1998, the DOC requested and received $140,000 in Tax-Exempt Proceeds (1169) Fund monies, and authorization from DPW to self-administer a second project to renovate the same six bathrooms. As the projects progressed, various situations occurred resulting in unapproved changes to the scope and additional costs. As of March 2002, the total renovation project costs for contractual services and commodities were approximately $336,000, of which, $165,000 and $171,000 was charged to the General and 1169 Funds, respectively. We also note that an additional $7,500 coming from the 1169 Fund has been approved for the project.

The additional $115,000 in costs charged to the General Fund included ceiling replacement, adding an officer bathroom, mirrors, partitions, additional plumbing for additional washers and dryers, and updating the flooring to ceramic. Also included are 50 cases of vinyl flooring costing $1,997 that were never used. As of March 2002, two of the six bathrooms had not been renovated.

Effect: With total renovation costs at approximately $336,000 as of March 2002 without the project complete, the project might not had been eligible for self-administration at the start since the maximum allowed for such projects was $250,000.

Cause: There was a lack of oversight by the Agency to adequately estimate the total costs involved with such renovations.

Conclusion: During July 2001, the Agency subsequently changed responsibility for project oversight and initiated organizational changes which have improved internal control. Since improvements have been implemented, a recommendation is not warranted at this time.

Late Deposits:

Criteria: Section 4-32 of the General Statutes requires receipts of $500 or more to be deposited within 24 hours and receipts less than $500 within seven calendar days.

Condition: A DOC employee received a check for $1,500 during December 2001. The employee held it until March 2002 when it was sent to the Agency Business Office. The check was deposited on March 11, 2002 and was for a proposed scholarship.

Our current review of outstanding checks for the Agency Petty Cash Fund disclosed a check dated June 15, 2000 for $364 that was still outstanding. After our inquiry, the Agency found the outstanding check in the payroll file of the employee that it was made out to. The check was to be deposited to the General Fund to purchase the employee's time used while on Workers' Compensation. The Agency deposited the check to the General Fund on April 5, 2002.

Effect: The above incidents are a violation of Section 4-32 of the General Statutes.

Cause: The employee receiving the scholarship check was apparently unaware of Agency procedures for the receipt of checks. The outstanding Petty Cash Fund check was apparently due to an oversight in reviewing outstanding checks pertaining to Workers' Compensation.

Conclusion: The above conditions appear to be isolated incidents and therefore no recommendation is warranted at this time.

RECOMMENDATIONS

Our prior report on the Department of Correction contained eight recommendations. Of the recommendations, five have been implemented or otherwise resolved and three have been repeated herein. The status of the prior recommendations is presented below:

- The Agency should maintain its property control records according to the State's Property Control Manual guidelines as provided in Section 4-36 of the General Statutes. Although continuing improvement was noted, this recommendation is repeated. (See Recommendation 2.)

- The Agency should improve its oversight over payroll matters. This recommendation is repeated. (See Recommendation 3.)

- The Agency should ensure that all losses are reported as required by Section 4-33a of the General Statutes. This recommendation has been resolved.

- The Agency should improve its controls over postage and fuel expenditures. This recommendation has been resolved.

- Correctional Enterprises should prepare annual business operating plans in full compliance with all requirements of internal Agency Administrative Directives. This recommendation has been resolved.

- Prices for all Correctional Enterprises' products and services, based on a formal written policy, should be documented. This recommendation has been restated to reflect our current findings. (See Recommendation 7.)

- Improved controls are needed over production inventories. This recommendation has been resolved.

- The Department should review the propriety of the practice of shift swapping by correctional officers. This recommendation has been resolved although our current report presents other findings regarding shift swapping. (See Recommendation 3.)

Current Audit Recommendations:

1. **The Agency should take the necessary steps to ensure timely compliance with regulations regarding the cost of incarceration by inmates.**

   Comment:

   Agency regulations require a ten percent deduction from all deposits made to an inmates' individual account. The regulation went into effect on or after October 1, 1997 but has not been implemented by the Agency as of April 2002.

2. **The Agency should maintain its property control records according to the State's Property Control Manual guidelines as provided in Section 4-36 of the General Statutes.**

   Comment:

   Our review found the Agency's property control records for software inventories, one of two supply warehouses and annual property reports for Correctional Enterprises were not in accordance with guidelines established by the State's Property Control Manual.

3. **The Agency should improve its oversight over payroll matters.**

   Comment:

   Our sample of Agency payroll transactions found numerous incorrect payments and that recently adopted shift swapping policies were not being followed.

4. **The Agency should ensure that payments for training courses, conferences or seminars are documented by proof of attendance.**

   Comment:

   Our review found that the Agency was not following its procedures that require staff to submit certificates or proof of attendance for continuing education paid by the State.

5. **The Agency should comply with the State Comptroller's procedures for petty cash funds.**

   Comment:

   The Agency was not consistently complying with the State Comptroller's requirement that employees receiving travel advances from petty cash must submit a reimbursement form within five working days from their return from travel.

6. **The Agency should document authorizations for payroll changes for the Inmates' payroll.**

   Comment:

   There was a lack of documented approval for changes in pay for the 4003 Fund Inmates' payroll.

7. **The determination of prices for all Correctional Enterprises' products and services should be fully documented including approval of prices below cost; accurate cost calculations; and adequate analysis of prevailing market prices.**

   Comment:

   Our review showed some improvement is still necessary to document the pricing of CEC's products.

8. **The Agency's statements for Correctional Enterprises of Connecticut should be presented in accordance with GAAP. Procedures for accruing liabilities and for proper physical inventory cut-off should be established to fairly present increases and decreases in the fund's economic resources.**

   Comment:

   The Agency was excluding the cost of raw materials received at fiscal year end and the resulting liabilities in its financial statements which is not in accordance with GAAP and results in the financial statements being misstated.

INDEPENDENT AUDITORS' CERTIFICATION

As required by Section 2-90 of the General Statutes we have audited the books and accounts of the Department of Correction for the fiscal years ended June 30, 2000 and 2001. This audit was primarily limited to performing tests of the Agency's compliance with certain provisions of laws, regulations, contracts and grants, and to understanding and evaluating the effectiveness of the Agency's internal control policies and procedures for ensuring that (1) the provisions of certain laws, regulations, contracts and grants applicable to the Agency are complied with, (2) the financial transactions of the Agency are properly recorded, processed, summarized and reported on consistent with management's authorization, and (3) the assets of the Agency are safeguarded against loss or unauthorized use. The financial statement audits of the Department of Correction for the fiscal years ended June 30, 2000 and 2001, are included as part of our Statewide Single Audits of the State of Connecticut for those fiscal years.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial-related audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Department of Correction complied in all material or significant respects with the provisions of certain laws, regulations, contracts and grants and to obtain a sufficient understanding of the internal control to plan the audit and determine the nature, timing and extent of tests to be performed during the conduct of the audit.

Compliance:

Compliance with the requirements of laws, regulations, contracts and grants applicable to the Department of Correction is the responsibility of the Department of Correction management.

As part of obtaining reasonable assurance about whether the Agency complied with laws, regulations, contracts, and grants, noncompliance with which could result in significant unauthorized, illegal, irregular or unsafe transactions or could have a direct and material effect on the results of the Agency's financial operations for the fiscal years ended June 30, 2000 and 2001, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants. However, providing an opinion on compliance with these provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported herein under generally accepted government auditing standards.

We did, however, note certain immaterial or less than significant instances of noncompliance that we have disclosed in the "Condition of Records" and "Recommendations" sections of this report.

Internal Control over Financial Operations, Safeguarding of Assets and Compliance:

The management of the Department of Correction is responsible for establishing and maintaining effective internal control over its financial operations, safeguarding of assets, and compliance with the requirements of laws, regulations, contracts and grants applicable to the Agency. In planning and performing our audit, we considered the Agency's internal control over its financial operations, safeguarding of assets, and compliance with requirements that could have a material or significant effect on the Agency's financial operations in order to determine our auditing procedures for the purpose of evaluating the Department of Correction's financial operations, safeguarding of assets, and compliance with certain provisions of laws, regulations, contracts and grants, and not to provide assurance on the internal control over those control objectives.

However, we noted certain matters involving the internal control over the Agency's financial operations, safeguarding of assets, and/or compliance that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control over the Agency's financial operations, safeguarding of assets, and/or compliance that, in our judgment, could adversely affect the Agency's ability to properly record, process, summarize and report financial data consistent with management's authorization, safeguard assets, and/or comply with certain provisions of laws, regulations, contracts, and grants. We believe our findings regarding shift swapping by correctional officers represents a reportable condition.

A material or significant weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with certain provisions of laws, regulations, contracts, and grants or the requirements to safeguard assets that would be material in relation to the Agency's financial operations or noncompliance which could result in significant unauthorized, illegal, irregular or unsafe transactions to the Agency being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over the Agency's financial operations and over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material or significant weaknesses. However, we believe that the reportable condition described above was not a material or significant weakness.

We also noted other matters involving internal control over the Agency's financial operations and over compliance which are described in the accompanying "Condition of Records" and "Recommendations" sections of this report.

This report is intended for the information of the Governor, the State Comptroller, the Appropriations Committee of the General Assembly and the Legislative Committee on Program Review and Investigations. However, this report is a matter of public record and its distribution is not limited.

CONCLUSION

We wish to express our appreciation for the cooperation and courtesies extended to our representatives by officials and staff of the Department of Correction during the examination.

Donald R. Purchla
Principal Auditor

Approved:

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts

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