STATE OF CONNECTICUT

AUDITORS' REPORT
DEPARTMENT OF CORRECTION
FOR THE FISCAL YEARS ENDED JUNE 30, 2010 AND 2011

AUDITORS OF PUBLIC ACCOUNTS
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STATE OF CONNECTICUT

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June 20, 2013

AUDITORS' REPORT
DEPARTMENT OF CORRECTION
FOR THE FISCAL YEARS ENDED JUNE 30, 2010 AND 2011

We have made an examination of the financial records of the Department of Correction for the fiscal years ended June 30, 2010 and 2011. 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 policies and procedures established to ensure such compliance.

COMMENTS

FOREWORD:

The Department of Correction 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 providing safe, secure and humane supervision of offenders with opportunities that support successful community reintegration.

The department is headed by a commissioner who is responsible for the administration, coordination and control of department operations, including the overall supervision and direction of all institutions, facilities and activities of the department. Brian Murphy served as acting commissioner from July 1, 2009 until July 30, 2010. He was immediately succeeded by Leo C. Arnone, who served as commissioner until his retirement on March 31, 2013.

Agency business operations are located within its administrative offices in Wethersfield. The department operates the following 15 correctional facilities that include correctional institutions (CI) and correctional centers (CC):

Bridgeport CC	Garner CI	Northern CI
Brooklyn CI	Hartford CC	Osborn CI
Cheshire CI	MacDougall-Walker CI	Robinson CI
Corrigan-Radgowski CC	Manson Youth Institution	Williard-Cybulski CI
Enfield CI	New Haven CC	York CI

The department closed two institutions during the audited period, Webster CI, as of January 15, 2010, and Gates CI, as of June 1, 2011. In addition, Bergin CI was closed as of August 12, 2011. The closings were due to declining inmate populations and agency budget reductions.

Correctional centers serve primarily as jails, acting as intake facilities for unsentenced males and for the confinement of males with shorter sentences. The Manson Youth Institution is used for confining male inmates between the ages of 14 and 21. The York Correctional Institution is used for sentenced and unsentenced female prisoners with all other correctional institutions generally incarcerating male inmates with sentences greater than two years.

Each facility is established at one of four levels of security ranging from level two - low security, to level five - high security. Level one is for inmates who have been released into the community but are still in the custody of the department.

According to department statistics, the total incarcerated population as of June 30, 2011, was 17,631, consisting of 16,524 males and 1,107 females. In addition to incarcerated inmates, the department oversaw 4,849 level one inmates released into the community as of June 30, 2011.

Board of Pardons and Paroles:

The Board of Pardons and Paroles operates under the provisions of Section 54-124a of the General Statutes. The Board of Pardons and Paroles is an autonomous body within the Department of Correction for administrative purposes only and was established to provide independence over pardon and parole decisions. The Department of Correction is responsible for supervising parolees under the jurisdiction of the board. The board consists of thirteen members appointed by the Governor with the advice and consent of both houses of the General Assembly.

RÉSUMÉ OF OPERATIONS:

General Fund Revenues and Receipts:

A summary of General Fund revenues and receipts during the audited period and the preceding year is presented below:

	2008-2009	2009-2010	2010-2011
Recoveries - Inmate Cost of Incarceration	$3,782,847	$3,442,183	$4,547,847
Child Nutrition Program	1,026,959	1,037,364	984,750
Other Miscellaneous Fees	412,400	332,400	392,400
Refunds of Expenditures - Prior Years	604,743	599,531	607,418

Sales and Use Taxes - State Agencies	294,229	279,697	284,863
All Other Revenues and Receipts	480,936	290,268	335,594
Total Revenues and Receipts	**$6,602.114**	**$5,981,443**	**$7,152,872**

General Fund receipts consisted primarily of recoveries of cost of incarceration collected by the Office of the Attorney General and the Department of Administrative Services Collection Services. Federal Child Nutrition Program revenues and reimbursements for board for federal detainees were also primary sources of revenue.

General Fund Expenditures:

A comparison of General Fund expenditures for the fiscal years under review and the preceding year follows:

	2008-2009	**2009-2010**	**2010- 2011**
Personal Services and Employee Benefits:			
Salaries and Wages	$367,377,660	$342,249,010	$344,428,613
Overtime	63,467,205	62,228,923	71,213,761
Meal Allowance	10,739,385	10,073,567	10,601,713
Worker Compensation Awards	26,629,796	32,084,597	21,004,864
All Other	11,968,182	11,365,378	12,660,914
Total Personal Services and Employee Benefits	$480,182,228	$458,001,475	$459,909,865
Purchases and Contracted Services:			
Contractual Services - Medical Fees	103,194,273	91,100,105	93,518,711
Premises and Property Expenses	44,015,468	38,969,207	39.543,081
Client Services	39,133,874	38,892,628	39,954,451
Commodities - Food	17,613,991	15,996,118	15,784,768
Commodities - All Other	9,838,271	6,367,568	13,615,747
All Other	16,161,731	13,507,131	13,688,164
Total Purchases and Contracted Services	$229,957,608	$204,832,757	$216,104,922
Total Budgeted Accounts	**$710,139,836**	**$662,834,232**	**$676,014,787**

Budgeted account expenditures decreased by $47,305,604 and increased by $13,180,555 during the fiscal years ended June 30, 2010 and 2011, respectively. The decrease in expenditures for the 2009-2010 fiscal year was mostly due to decreases in salaries and wages because 430 employees utilized the retirement incentive program in 2009. These retirements had a similar effect on the Contractual Services - Medical Fees account, reducing expenditures by $12,094,168 during 2009-2010. These expenditures consisted almost exclusively of payments to the University of Connecticut Health Center under a memorandum of understanding to provide a comprehensive managed health care program for inmates.

The increase in expenditures for the 2010-2011 fiscal year was mainly due to a nearly $9,000,000 increase in overtime costs. The increase reflects the need for increased overtime utilization because the average number of full time correctional officers decreased from 3,971 during the 2009-2010 fiscal year to 3,842 during the 2010-2011 fiscal year. Also, the cost of overtime was increased by approximately three percent due to collective bargaining increases for the 2010-2011 fiscal year.

Special Revenue Fund - Federal and Other Restricted Accounts:

Federal and other restricted account receipts for the fiscal year ended June 30, 2010 and 2011, totaled $6,430,136 and $4,283,116, respectively, consisting mainly of federal aid and grant transfers.

A comparison of expenditures from federal and other restricted accounts for the fiscal years under review and the preceding year follows:

	2008-2009	2009-2010	2010- 2011
Personal Services and Employee Benefits:			
Salaries and Wages	$1,475,039	$1,469,813	$1,013,806
Employee Benefits	581,518	595,219	506,741
All Other	35,270	22,959	21,131
Total Personal Services and Employee Benefits	$2,091,827	$2.087,991	$1,541,678
Purchases and Contracted Services:			
Information Technology	61,212	1,311,661	527,642
Purchased Commodities	580,939	593,435	477,910
Capital Outlays - Equipment	56,870	683,438	960,468
All Other	1,357,547	919,641	837,363
Total Purchases and Contracted Services	$2,056,478	$3,508,175	$2,803,383
Total Federal and Other Restricted Accounts	**$4,148,395**	**$5,596,166**	**$4,345,061**

Federal and other restricted account expenditures were relatively stable during the audited period, except for the increase in the 2009-2010 fiscal year in the Information Technology account. This increase was due to installment payments to upgrade office software.

Other Special Revenue Funds:

Other special revenue fund expenditures include $124,231 and $29,237 for renovation projects from the Grants - Tax Exempt Proceeds Fund and equipment purchases made through the Capital Equipment Purchases Fund, totaling $755,458 and $1,136,116, during the respective audited years.

Correctional Industries Fund:

The Correctional Industries Fund accounts for the operations of Correctional Enterprises of Connecticut (CEC) and inmate commissaries. Through the use of inmate labor, CEC produces goods and services that are sold primarily to other state agencies. CEC may also sell items to other governmental agencies and private nonprofit entities. During the audited period, approximately 60 percent of CEC sales were to the Department of Correction. The inmate commissaries sell various personal supplies and food items to inmates. Monies are transferred from the individual inmate fund accounts to the Correctional Industries Fund when inmates purchase commissary items. A summary of cash receipts and disbursements for the fund during the audited period follows:

	CEC	Commissary	Total
Cash Balance, July 1, 2009	**$ 1,676,398**	**$ 2,585,006**	**$ 4,261,404**
Receipts	6,967,205	14,866,899	21,834,104
Disbursements	(6,768,466)	(15,023,404)	(21,791,870)
Transfers	-0-	(1,194,953)	(1,194.953)
Cash Balance, June 30, 2010	**1,875,137**	**1,233,548**	**3,108,685**
Receipts	6,916,468	15,215,818	22,132,286
Disbursements	(6,948,580)	(15,456,923)	(22,405,503)
Transfers	-0-	216	216
Cash Balance, June 30, 2011	**$ 1,843,025**	**$ 992,659**	**$ 2,835,684**

The decrease in cash balances during the audited period was mainly due to a transfer of $1,200,000 to the General Fund from the commissary account as part of a statewide deficit mitigation plan, as authorized under the provisions of Public Act 10-03.

Per Capita Costs:

The weighted average daily per capita cost for the operation of correctional facilities, as calculated by the State Comptroller for the 2009-2010 and 2010-2011 fiscal years was $133 and $137, respectively.

Fiduciary Funds:

The department 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 department financial statements, cash and cash equivalents as of June 30, 2011, totaled $2,831,377 for the Inmates' Fund and $61,434 for the Special Projects Activity Fund.

CONDITION OF RECORDS

Our review of the department's records revealed several areas requiring improvement as discussed below:

Payroll / Personnel:

Criteria:

1. Time and Attendance Records -

a. Timesheets - Proper internal control requires that time and attendance records be signed by the employee and the employee's supervisor upon completion of the corresponding pay period.

b. Overtime sheets - The department's Administrative Directive 2.15, Section 16, requires an overtime signature sheet to be completed for each shift. Employees sign off on the sheet and the sheets are sent to the unit administrator for review and approval.

2. Acknowledgment of State Computer Policies - State and agency policies require the department to obtain signed, formal acknowledgements from employees indicating that they understand and agree to abide by the policies governing the use of state computers.

3. Training - Department Administrative Directive 2.7 requires employees to obtain a specified number of hours of in-service training each year.

4. Evaluations - According to Section 5-237-1 of the state personnel regulations, an annual evaluation is to be filed for each employee at least three months prior to the employee's annual increase date.

5. Sick Leave -

a. Monitoring of sick leave - According to Section 7 of the department's Administrative Directive 2.11, the attendance records of all employees are to be periodically reviewed. In reviewing absenteeism, supervisors are to consider the number of occasions, pattern of absence, and prior attendance records. The department outlines procedures for addressing attendance issues identified.

b. Funeral leave - Section six of the department's Administrative Directive 2.11 permits sick leave to be used for funerals if prior approval is obtained. State personnel regulations and bargaining unit agreements dictate the number of days allowed per year.

c. Sick family - Under Section 5-247-11 of the state personnel regulations, employees are permitted to use sick leave in the event of a critical illness or severe injury to a member of the immediate family creating an emergency.

d. Medical appointments - State personnel regulations require a medical certificate be submitted to substantiate sick leave if an absence recurs frequently or habitually. In addition, section four of the department's Administrative Directive 2.11 requires a medical certificate be submitted for any medical appointment in excess of one half of a workday.

e. Medical certificates - According to Section 5-247-11 of the state personnel regulations, a medical certificate is to be submitted to substantiate a period of sick leave consisting of more than five consecutive working days. The statewide Family and Medical Leave Policy sets forth procedures for requesting a leave under the Family and Medical Leave Act (FMLA). The policy outlines the forms required and the deadlines for submitting the forms.

6. Compensatory Time - Section twelve of the department's Administrative Directive 2.8 requires managerial employees to receive advance authorization in advance to receive compensatory time. Compensatory time is to be expired in accordance with agency policies and collective bargaining agreements.

7. Workers' Compensation - An employee incapacitated from work and eligible for wage replacement benefits is to be paid indemnity in accordance with the Workers' Compensation Act. A claim packet is to be completed to document the facts of a reported claim.

8. Overtime - The bargaining unit agreements for correctional supervisors and officers dictate the specific procedures for assigning overtime. All employees interested in working overtime sign a quarterly overtime list. Correctional officers also record their availability in sign-up books. When overtime is needed, it is offered to available employees in the order of those with the lowest to the highest overtime hours. Section 16 of the department's Administrative Directive 2.15 requires the facilities to maintain overtime call sheets.

Condition:

1. Time and Attendance Records -

a. Timesheets - We noted seven timesheets from our payroll testing that were signed between one and eight days before the end of the pay period.

b. Overtime Sheets - Our review revealed seven overtime signature sheets for four of the 20 employees tested appeared to be signed by someone other than the employee.

2. Acknowledgment of State Computer Policies - Our review found 36 of 40 personnel files lacked documentation that employees acknowledged state and agency computer policies.

3. Training - Our review revealed 28 of 40 employees did not meet the annual in-service training requirements. Employees were between six and 40 hours short per year. We also found four employees received between 30 and 124 hours of excess training per year. The department could not provide documentation justifying that the additional training was necessary.

4. Evaluations - We noted that evaluations were missing for 15 of 40 employees tested. We also noted that 15 employees received annual increases without current evaluations on file. In addition, our review found four evaluations were signed by required personnel between four and eight months late.

5. Sick Leave -

a. Monitoring of sick leave - Our review revealed six instances in which supervisors failed to adequately monitor employee use of sick leave. We noted three employees bypassed agency limits on multiple occasions, two employees continuously charged sick leave on days immediately preceding or following scheduled days off, and one employee’s sick leave indicated a sustained pattern of absence.

b. Funeral leave - No evidence of prior approval was on file to support 15 days of funeral leave charged by nine employees. We further noted questionable patterns in the use of funeral leave, with leaves frequently occurring on weekends, holidays, and on multiple occasions in a short period of time. In addition, our review revealed 47 employees within the agency exceeded the number of days permitted per year by one to three days.

c. Sick family - There appears to be a lack of monitoring for the potential abuse of sick family time within the agency. Of the 166 sick family days charged by the 40 employees in our audit sample, we noted 119, or 72 percent, of the days were charged on days immediately preceding or following a scheduled day off, a Saturday or Sunday, or a holiday.

d. Medical appointments - No medical certificates were on file to support the sick leave charged by three employees for recurring medical appointments or medical appointments in excess of one half of a workday. During the audited period, two employees charged, in total, 12 full days and five half days for appointments; 14 of the 17 appointments fell on days immediately preceding or following a scheduled day off. Another employee charged a total of 98.5 hours on 45 separate occasions for appointments.

e. Medical certificates - Our review of 20 leaves of absence found that nine leaves were not sufficiently supported by the available agency documentation. Three medical certificates were missing and one medical certificate did not cover the period of leave. Three leaves were coded as FMLA leave but were not supported by evidence that the employee applied for FMLA leave or that it was approved by the agency. In addition, there were eight instances in which a required FMLA form was either missing or incomplete. We also found that required documentation was submitted between five days and 26 months late for five leaves.

6. Compensatory Time - Compensatory time was not properly expired for all 15 of the employees tested. The time did not expire because employees were enrolled in incorrect leave plans. When the error was discovered in 2011, those employee balances were moved in full to the correct plan. At this time, employee balances totaled 3,073 hours, with individual balances ranging from .50 to 672 hours. As of October 2012, the department had yet to properly expire the compensatory time and employees continued to have access to such time. We also noted two instances in which a managerial employee did not receive prior authorization to earn compensatory time.

7. Workers' Compensation - We reviewed ten workers' compensation claims and found indemnity payments for four claims were inaccurate; the discrepancies ranged from underpayments of $140 and $258 to overpayments of $63 and $155. Two of the claims were the fault of the third party administrator. Also, eight claims were not supported by properly completed workers' compensation documents;

the deficiencies included a lack of signatures and incomplete information.

8. Overtime - Due to insufficient documentation, we could not verify that 749.25 hours, or $31,771, of overtime earned by 16 correction officers and lieutenants were distributed in accordance with bargaining unit agreements. Of the four correctional facilities tested, three could not provide the quarterly lists, two could not provide the sign-up books, and two could not provide the call sheets. The unavailable records were destroyed in accordance with the department's record retention schedule that permits such records to be destroyed after one year. We note that this procedure prevents the implementation of Section 2-90(g) of the General Statutes, which requires all records to be available for audit by the Auditors of Public Accounts upon demand.

Effect:

1. Time and Attendance Records - When attendance records are not properly reviewed or signed by employees and supervisors, there is an increased risk for errors and fraudulent activities.

2. Acknowledgment of State Computer Policies - When employees fail to acknowledge policies governing the use of state computers, the risk for improper use of such equipment increases.

3. Training - The department failed to provide employees with the training necessary to increase the overall proficiency of the workforce. We could not verify that the additional training provided to some employees was a necessary cost to the state.

4. Evaluations - The department is not in compliance with state personnel regulations governing annual evaluations. In addition, the lack of current evaluations heightens the risk that employees will improperly receive annual increases.

5. Sick Leave - Failure to adequately monitor sick leave could result in the abuse of such time and limit the overall ability of the department to function properly. In addition, the use of sick leave by staff in correctional institutions often creates the need for overtime, which inflates state spending.

6. Compensatory Time - When compensatory time is not properly expired, employees may be using time they are not entitled to. Without prior supervisory approval, compensatory time may be unjustifiably earned.

7. Workers' Compensation - Indemnity payments were not made in accordance with the Workers' Compensation Act. The lack of signatures and claim information increases the risk for errors and fraudulent activities.

8. Overtime - Without the supporting records, we could not verify overtime was distributed to correctional supervisors and officers in accordance with bargaining unit agreements.

Cause: The incomplete and missing documentation, deficient training hours, inadequate monitoring of sick leave, unexpired compensatory time, and inaccurate workers' compensation payments all appear to be the result of managerial oversight and improperly implemented internal controls.

Recommendation: The Department of Correction should improve oversight over the enforcement of certain payroll and personnel procedures and practices. (See Recommendation 1.)

Agency Response: "1. Time and Attendance Records-

a. Timesheets - The Department acknowledges this finding. However, we note that there are instances where this is acceptable. Of the seven time sheets identified, six employees either work off site or they spend the majority of their time in a different work location than their supervisor. Therefore, staff who will be away from the work site at the end of the payroll cycle may submit their time sheets to their supervisor early due to scheduling conflicts. This may also occur when the employee has a preapproved vacation planned and will be unavailable to submit time sheets at the end of the cycle for timely payroll processing.

b .Overtime Sheets -The department acknowledges this finding and will look into the matter. The department's human resources unit will send a reminder to facility operations to ensure overtime records are signed by the employee and the unit administrator for review and approval.

2. Acknowledgment of State Computer Policies – The department acknowledges this finding; however, we note that of the 36 employees noted, 25 of them are correction officers. Facility correction officers do not have regular use of computers. Therefore, they were not required to sign for the policy. When the requirement changed, in an effort to reduce paper processing, the department explored the idea of placing the policy directly on the computer for

viewing during the computer log on process. Due to staffing changes and shortages, the project was not completed. It will be resumed as soon as possible.

3. Training - Although staff may have completed annual training unless they were on extended leave of absence during the training period; it is difficult to obtain accurate records. The department requires that direct contact staff take 40 hours of training annually. The training may consist of web based training, facility specific training and/or off site training. The web based training records are stored in the LMS system, the facility specific training is recorded on a sign-up sheet and sent to the training academy for data entry and the offsite training is recorded in Core-CT using the RTRNG code. At the conclusion of the offsite training, staff are required to send a certificate of completion to the training academy to record in the employee's training records. The training academy will remind supervisors to send all training records to the training lieutenants to ensure they are properly recorded in the data base.

It is important to note that the employees who may have received in excess of their required training could be as a result of a specialty assignment. For example: A specific correctional counselor supervisor was identified as a training liaison for the addiction services division. Therefore she was required to plan, attend, and occasionally facilitate training for the correctional substance abuse counselors.

In instances when this is not the case, the department will accept the recommendation from the Auditors of Public Accounts.

4. Evaluations -The department acknowledges this finding. Although the human resources unit sends out regular notices regarding annual evaluations, we have not had the adequate staffing to ensure all of the evaluations were completed accurately, timely and filed in the employee's official personnel file. This issue will be addressed per the recommendation of the Auditors of Public Accounts.

5. Sick leave - The department noticed there were inconsistencies monitoring Administrative Directive 2.11- Employee Dependability. Therefore, the human resources unit initiated a funeral leave form, tandem occasion policy and a sick family form. In addition, the department developed a mandatory supervision training program designed to improve the quality of supervision and to ensure all policies that include Administrative Directive 2.11 are implemented accurately and uniformly.

It is important to note that funerals are being held on the weekend more frequently, but the funeral leave form should be verified by the supervisor.

The audit addresses family funeral and indicated that staff have exceeded the family funeral usage, which is three days. It is important to note that the family funeral policy allows for three days per instance. For example an employee's husband and mother passed away in the same year; therefore she used six days. These were two separate occurrences.

The department's sick leave initiative has increased the accuracy with which sick leave, funeral leave, sick family leave, and medical certificates are being handled.

Regarding the medical appointments in excess of a half of day, the agency does not require a medical certificate. We require an appointment card that remains at the facility/supervisory level.

In addition, we will implement the recommendation as noted by the Auditors of Public Accounts.

6. Compensatory time - 13 of 15 records noted were parole officers. A memorandum of understanding between the AFSCME Council 4, NP-4 Bargaining Unit and the Connecticut Department of Correction regarding parole officer compensatory time resolving this issue was entered into by the parties on March 7, 2013. With regard to the two managers not receiving proper authorization, a reminder will be issued to the top managers to ensure compliance with the policy.

7. Workers' compensation - The department acknowledges the finding, however we note that upon review of the referenced indemnity payment inaccuracies and it was determined that in two instances no errors were made. One error was not made by the department, and it was corrected by the third party administrator and in the fourth instance, the third party administrator was notified and made the appropriate adjustments to the file.

As noted, there were eight claims that lacked information and/or signatures. Forms are sent to the employee or the supervisor to complete and sign, but unfortunately they are not always returned to the worker's compensation division as requested. Supervisors will be reminded of their responsibilities with regard to workers' compensation paperwork and the workers' compensation division will increase its efforts to secure delinquent paperwork.

8. Overtime -The department acknowledges this finding and will adjust our records retention policy and schedules to reflect the applicability of section 2-90(g) of the General Statutes to these records."

Inmate's Discharge Savings Accounts and Incarceration Cost Recoveries:

Criteria: Section 18-85a of the General Statutes authorizes the department to set regulations for charging inmates for the cost of incarceration.

Section 18-84a of the General Statutes establishes a discharge savings account program funded by deductions of up to ten percent on all deposits made to inmate individual accounts, including monies received from work assignments. When an inmate's discharge savings account equals one thousand dollars, deductions of ten percent on all deposits will be used to recover the inmate's costs of incarceration.

Condition: The department has not complied with statutory requirements dictating ten percent be deducted from deposits made to inmate accounts to fund a discharge savings account program or to recover the costs of incarceration.

Effect: The department has not been in compliance with statutory requirements.

Cause: The department has been unsuccessful in obtaining legislative changes they feel are needed to address accounting and other issues before implementing the law.

Recommendation: The Department of Correction should take appropriate action to comply with or amend statutory and regulatory requirements regarding the establishment of an inmate discharge saving account program and the recovery of incarceration costs from inmates. (See Recommendation 2.)

Agency Response: "Public Act 07-158 amended CGS Section 18-85 and various related sections to provide authority to the department to withhold ten percent of certain inmate receipts. The act, as written, left certain inconsistencies and created requirements that make implementation problematic. Working with the Office of the Attorney General, we developed a legislative proposal (Bill # 08-5922) to amend PA 07-158 during the

2008 Session. The proposal was not adopted by the Legislature, nor were subsequent proposals (09-6709, 10-457, 11- 955 and 12-398) adopted. We intend to propose the necessary revisions once again in the 2013 Session."

State Grants-Related Party Transactions:

Criteria: Advisory Opinion 1999-19 of the Office of State Ethics states that when a related party transaction demonstrates a direct conflict of interest under Section 1-86e of the General Statues, the private agencies need to disclose the transaction prior to entering into any leasing arrangement. The Office of Policy and Management's (OPM) cost standards establish requirements for when a related party transaction is considered an allowable cost.

Condition: We noted a provider failed to disclose that it was leasing a house from its executive director. As a result, the department did not monitor whether costs associated with the house were in compliance with OPM's allowable cost standards for related party transactions. This would include any capital improvements associated with the leased house.

Effect: The failure to disclose a related party transaction could result in the provider incurring unallowable costs that would not be detected by the department.

Cause: The department relied on the contractors to disclose their related party transactions. As contract staff took on more workload, contract monitoring activities were negatively affected.

Recommendation: The Department of Correction should take the steps necessary to ensure providers are disclosing all related party transactions. (See Recommendation 3.)

Agency Response: "The department acknowledges this finding. The provider never disclosed this information to the department. We realized that this was the case when we received OPM audit findings and a copy of their state single audit. Once we became aware of the issues, we immediately began working with the provider to address and correct all of the many issues identified by OPM and the provider's auditors for both the 2009-2010 and 2010-2011 fiscal years. As we worked with the provider it became apparent that the provider was ill-equipped to administratively maintain a contract with the department within state contracting and accounting guidelines and regulations. As such we terminated our contract with the provider as of June 30,

2012. As a result of this incident we have begun the process of reviewing our processes and procedures to determine how best to prevent such issues from occurring again."

Correctional Industries Fund:

Criteria:

1. Inmate Payroll - The department's Administrative Directive 10.1, Section 5.G. states that an inmate shall only be paid for actual participation in an assignment to which they are classified. Agency forms used for authorizing inmate wage increases require the signature of both the recommending staff and supervising officer.

2. Inventory - Amounts reported on an agency's annual inventory report (CO59) should be reconciled to the amounts reported on the agency's financial statements and Core-CT inventory reports.

3. Financial Statements - The business entity should deduct the value of obsolete inventory in its financial statements in accordance with generally accepted accounting principles.

Condition:

1. Inmate Payroll - Our test of payroll showed inmates were improperly paid for days off. We found that for April 9, 2010, Good Friday, all 48 inmate workers at McDougall-Walker CI were overpaid a total of $212; and 30 inmate workers at Cheshire CI were overpaid $112 for May 30, 2011, Memorial Day. We also found that four of ten workers at MacDougall-Walker CI did not have any managerial signatures on their pay raise justification form.

2. Inventory - The agency's CO59 report did not agree with the Correctional Industries Fund (CIF) balance sheet as of June 30, 2011. The equipment balance reported on the CO59 report was $5,050,251 which was $564,968 less than the $5,615,219 reported on the balance sheet for the fund's fixed assets, net of software and building improvements.

The additions and deletions of equipment reported on the June 30, 2011 CO59 report did not agree with the Core-CT inventory reports. The department made adjustments to the CO59 report so that the additions and deletions would agree with what was recorded in Core-CT. The adjustments were not supported and the discrepancies were not explained in an attachment to the CO59 report as is required by the Comptroller.

3. Financial Statements- As of June 30, 2011, the inventory balance for Correctional Enterprises of Connecticut, totaling $3,175,781,

included obsolete inventory worth $760,647. This includes raw materials that could not be used due to recent changes in production technology or because they have an expired shelf life. It also includes merchandise that could not be sold for an extended period of time.

Effect: 1. Inmate Payroll - Inmate workers were overpaid and some inmate pay raises could not be verified.

2. Inventory - The department failed to comply with the Comptroller's property control instructions. Unexplained differences between the CIF's financial statements and the CO59 report may result in undetected losses.

3. Financial Statements - Assets and fund balance were overstated by the value of the obsolete inventory.

Cause: 1. Inmate Payroll - The discrepancies appeared to be the result of supervisory oversight.

2. Inventory - There appeared to have been a lack of internal communication that led to unexplained discrepancies.

3. Financial Statements - As noted in our prior audit, there was a continuing lack of internal communication resulting in the inclusion of obsolete inventory in the financial statements.

Recommendation: The Department of Correction should ensure that inmates are correctly paid; inventory reports reflect actual inventory value and are prepared in accordance with the State Comptroller's guidelines. (See Recommendation 4.)

Agency Response: "1. Inmates' payroll - The department had, for many years, paid commissary Inmate workers for days off due to state holidays. The theory behind the tradition was that inmate workers were encouraged/expected to process a full week of orders in just four of five days due to the holiday shut down. This practice was used as an incentive for the extra output.

The Auditor of Public Accounts raised this issue in December of 2011 and demonstrated that the tradition was a violation of Administrative Directive 10.6. At that time, the department put an end to the tradition and inmate workers are no longer paid for days not worked, even if they maintain a full week production level.

All changes in pay, including an increase in the rate of pay, must be

signed by appropriate supervisor. Staff has been reminded of this requirement to ensure compliance.
2. Inventory - The Comptroller's property manual states all personal property items with a useful life of one year or more and a value or cost of $1,000 or more must be capitalized. CEC adheres to the Comptroller's guidelines and also follows GAAP when capitalizing an asset.

The differences in the reporting methodologies of fixed asset records between the Core-CT and CEC continue to exist for various reasons. The value or cost of purchased, transferred, and donated assets that are recorded on the CEC financial statements are directly derived from the Core-CT records. For example, items such as computers, sewing machines that are donated from other agencies to CEC are considered at its zero value because they are typically used for three or more years and are already depreciated by the donor agencies. CEC first records the donated/transferred assets at its full value from Core-CT and simultaneously fully depreciates them. This creates variances between the Core-CT and CEC records. The variances can also occur from certain types of building improvement expenses (for instance fences), which CEC recognizes and capitalizes in accordance with GAAP as capital assets, whereas Core-CT expenses them. The Comptroller requires an agency to report all controllable assets (assets between $500 and less than $1,000) on form, CO-59, while at the same time CEC would simply expense them.

Conclusively, since the comptroller property manual asserts, "If the values recorded on the CO-59 do not reconcile with Core-CT, the agency must provide a written explanation of the discrepancy in an attachment." Per the DOC Asset Management Unit, the value reported on the CO-59 mirrors the Core-CT query report, which meets the comptroller's guidelines. In addition, the DOC Asset Management Unit regularly, on a monthly basis, reconciles its assets list with the CEC records for all variances. These variances are noted in the CEC asset reconciliation worksheet. Therefore, we believe a written explanation is unwarranted.

3. Financial statements - The current management of Correctional Enterprises of Connecticut (CEC) recognizes and acknowledges there are inventory areas that need further attention. The current obsolete inventory issue is the result of business decisions made by the previous management team. Under the prior management, significant raw materials inventory was obtained and some was manufactured into finished goods (i.e. tee shirts and sweat shirts) prior to the establishment of a market for such goods. Ultimately there was an

issue with pricing and overall quality of the manufactured items and a market was never successfully developed.

CEC's current management inherited this issue and has been working diligently to resolve it. Considerable effort to use, sell and donate items has been made; however, these efforts have met with minimal success. A current update of the "No-turn/slow-turn" goods is being completed and it is expected that CEC will establish a loss reserve for this inventory. Appropriate financial statement notes and adjustments will be made."

Payments for Educational and Consulting Services:

Background: Section 10-66a - n of the General Statutes provides for the establishment of regional educational service centers to provide educational services to member districts. The Capital Regional Education Council (CREC) is the service center for the Hartford area that works with local boards of education to improve the quality of public education. The department contracted with CREC to provide temporary employees in educational and consulting positions within the Unified School District 1, the legally vested school district within the department.

Criteria: The department's contract with CREC states that "payment shall be made based on actual services rendered." Such services should be sufficiently documented through attendance records. Section 31-51ii of the General Statues states that no person shall be required to work for 7.5 consecutive hours or more without a period of at least 30 consecutive minutes for a meal.

Condition: Our review of CREC billings for services provided in June 2011 and for the quarter ending March 21, 2012 showed that an employee did not exclude unpaid mealtime on the days they worked 7.5 hours or more. In addition, it appeared that the billing hours for two employees overlapped between their CREC and department jobs.

For one employee, we compared the sign-in sheets from the Manson Youth Institute and 57 billing days for CREC services provided from January 1, 2012 to April 4, 2012 and noted on 32 days, CREC billing hours included the hours before the employee signed in at the facility and/or the time period after the employee had signed out of the facility. The employee did not exclude any unpaid mealtime on 15 days working more than 7.5 consecutive hours during June 2011.

Another employee worked part-time for the department for 18 hours a week and worked 17 hours a week as a technical consultant under the CREC contract with the department. When comparing the CREC billing hours to the department sign-in sheets, we found that on nine days, billing hours overlapped. On the other days reviewed, the sign-in sheets were incomplete so we could not determine the actual hours.

Effect: The lack of comparison of timesheets for department employees who also worked under contract could result in undetected overpayments to the provider.

Cause: The above conditions appear to be the result of management oversight.

Recommendation: The Department of Correction should maintain sufficient documentation to ensure the accuracy of payments to employees who also work for outside agencies. (See Recommendation 5.)

Agency Response: "The department acknowledges that spotty record keeping has led to the appearance of overpayments. As soon as the potential overpayment issue was brought to our attention by the APA, we investigated and it was clear that there were several "errors" made in the recording of work hours with CREC and the department by the individuals identified by the Auditors of Public Accounts, however, we also determined that the billing hours in question did not overlap and as such no overbilling or intent to overbill the state occurred.

As a result of this finding USD #1 will reiterate to its staff that attendance records must be complete and accurate with actual work hours documented and supervisors will be reminded that they should not sign time-sheets before the end of a pay period. Central office will help to monitor this practice."

Correctional Enterprises - Optical Shop

Criteria: Under Section 18-88, subsection (b), of the General Statutes, the commissioner shall approve the establishment and maintenance of an optical shop. The shop will produce prescription eyeglasses for inmates, persons under state care in other institutions and other persons receiving or eligible under Title XIX (Medicaid).

Condition: Our review noted that the CEC optical shop was not operating as intended by the statute, outsourcing its optical lab operations since 2009. The CEC contracted with the State of Massachusetts' equivalent to the CEC to fill prescriptions. The CEC optical shop's current role is to receive eyeglass orders from inmates, have them filled in Massachusetts and delivered to the appropriate correctional facility.

The outsourcing reduced the optical shop's net income from $175,028, for the 2008-2009 fiscal year to $55,134 for the 2010-2011 fiscal year.

Effect: The intent of the statute is for the CEC optical shop to provide eyeglasses to inmates, clients at other state institutions and those eligible or receiving Medicaid benefits. The current limited role of the shop results in revenues going out-of-state while depriving clients at state facilities and Medicaid recipients a viable cost-effective option for obtaining prescription eyeglasses.

Cause: The outsourcing started when the CEC optical technician retired and the subsequent filling of the position was denied due to a hiring freeze. The statute requires that the optical shop must be directly supervised by a licensed optician. We were informed that no further attempt has been made to reestablish the position since 2009.

Recommendation: Correctional Enterprises of Connecticut should seek to operate its optical shop as intended by the General Statues to provide its inmates, Medicaid recipients and all others under care in state facilities with cost effective access to prescription eyeglasses. (See Recommendation 6.)

Agency Response: "Section 18-88 subsection (b) of the General Statutes allows for the production of prescription glasses by the CEC optical shop for inmates, for persons under state care in other institutions and those receiving Medicaid benefits, but does not require it. CEC has worked diligently over the years to establish and maintain a viable optical operation; however given the difficulties it has experienced in maintaining a licensed optical technician on staff and the difficult economics of producing eyeglasses, CEC has decided to exit this business.

CEC lost its optical technician in 2009 due to retirement. This position was a vocational education position and a replacement was not pursued due to a hiring freeze. Without an optical technician, CEC was unable to manufacture eyeglasses. As CEC was the sole provider for DOC inmate eyeglasses, the unit needed to establish a replacement supplier quickly and as such looked for other correctional industries optical providers to partner with. Both Virginia and Massachusetts were considered and based on geographic considerations CEC established a relationship with Massachusetts

Corrections (MASSCOR). This arrangement allowed CEC to continue to supply eyeglasses to the Department (via its healthcare provider Correctional Managed Healthcare - a division of the UConn Health Center) and provided time for the CEC to determine the future course of the optical shop. Current costs to Correctional Managed Healthcare's (CMHC) are approximately 50 percent of what they were when CEC was making eyewear, however in an effort to further lower their costs it is CMHC's intent to purchase eyewear directly from MASSCOR. CEC is currently working with CMHC and the current provider, (MASSCOR) to exit this business.

Approximately five to six years ago, prior to the retirement of the optical technician, CEC approached the Medicaid market and discovered that it was not a viable option due to quality and issues with cost and delivery of goods and services. As such other state institutions and Medicaid clients have never been recipients of eyeglasses from the optical operation, therefore there is no loss of cost effective options for eyeglasses.

Section 18-88 subsection (g) of the General Statutes states that "each state department, agency, commission or board shall purchase its necessary products and services from the institution industries if such products and services are produced or manufactured and made available by such industries, provided such products and services are of comparable price and quality and in sufficient quantity as may be available for sale or offered for sale outside the institutions." CEC has found that state agencies generally do not adhere to this mandate and as such has had difficulty in obtaining state agency business. CEC's inability to compete in the eyeglass market for state agency business is an example of the ineffectiveness of this mandate."

Auditors' Concluding Comments:

Prior to the optician's retirement in 2009, CEC optical shop reported a fund balance (net profit) of $175,029, which was three times greater than its balance of $55,134 for the 2010-2011 fiscal year. We believe that such operation is of greater benefit to the state and its wards than just collecting handling fees for providing glasses to inmates. As part of resuming the optical shop, the CEC should make a concerted effort to reach out to state agencies serving Medicaid clients and present the cost benefits analysis of using the CEC optical shop for their clients.

Late Deposits:

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

Condition: Our review found continuing delays in deposits with 83 percent, or ten out of twelve, of those tested during calendar year 2010 being deposited one to four days late. Such deposits usually ranged from $10,000 to $20,000. Inmate mailed receipts totaled approximately $8,500,000 and $10,300,000 for the 2009-2010 and 2010-2011 fiscal years, respectively.

Since our initial testing noted two deposits that were a week or more late during December 2010, we conducted additional testing and found continuing extended delays during December 2010 through early January 2011. Deposits during that period were regularly from five to eight business days late. We note that starting in late January 2011, deposits tested for the rest of the calendar year were made on a timely basis.

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

Cause: There were difficulties with staffing and keeping up with the volume of activity.

Conclusion: Since the department has corrected its past problems with making timely deposits, we are not repeating the previous recommendation. We note that despite the past difficulties, overall internal controls over inmate funds have been sufficient to prevent against any significant undetected loss of such funds.

Agency response: "DOC acknowledges this finding and has been working to address the underlying issues. While the inmate trust unit continues to make significant strides in improving the timeliness of deposits in general, certain events can make meeting this goal difficult. The department's "holiday program" period, from November through December each year, is such a time. Since certain restrictions are lifted during the holiday program, the unit experiences a significant increase in the number of money orders received. In addition, in November 2010 we had two holidays (Veteran's Day & Thanksgiving) and an added furlough day after Thanksgiving. This time period also sees an increase in staff illness and vacation. This decrease in work days, in combination with the increase in money orders, strains the limits of the unit's processing abilities. In addition, the time frame cited in the "Conditions" section coincided with the implementation of a new process which required the one time data entry of all senders' information into the central database. This created an additional drag on production numbers and time lines. The unit continues to promote the electronic method of deposit and is now looking at the feasibility of using kiosks to receive funds."

RECOMMENDATIONS

Our prior report on the Department of Correction contained five recommendations, three have been implemented or otherwise resolved and two will be repeated. One of the repeated recommendations has been significantly modified to reflect compliance with some of the previous issues. The following is a summary the action taken on the prior recommendations.

- The Department of Correction should ensure that deposits are made in a timely manner in accordance with Section 4-32 of the General Statutes. This recommendation has been resolved.

- The Department of Correction should take appropriate action to comply with or amend statutory and regulatory requirements regarding the establishment of an inmate discharge saving account program and the recovery of incarceration costs from inmates. This recommendation is repeated. (See Recommendation 2.)

- The Department of Correction should improve accountability over telephone commission revenues to ensure that such funds are used for expanding inmate education services and reentry program initiatives as required by Section 18-81x of the General Statutes. This recommendation has been resolved.

- Correctional Enterprises of Connecticut's operations should be improved to ensure there is adequate monitoring of financial aspects of shop operations, that cost accounting information is properly maintained and that pricing policies are followed. This recommendation was mostly resolved except for the carrying of obsolete inventory. This will be repeated along with issues involving inmate pay. (See Recommendation 4.)

- The Correctional Enterprises of Connecticut should prepare annual business plans for its operations as required by Department of Correction policy. The department has complied with this recommendation.

Current Audit Recommendations:

1. The Department of Correction should improve oversight over the enforcement of certain payroll and personnel procedures and practices.

Comment:

Our review found a lack of oversight in certain areas. These include ensuring proper approval of time sheets, staff acknowledging state computer policies, complying with training requirements, performing timely staff evaluations, sufficiently monitoring sick leave and compensatory time and the making accurate of workers' compensation payments.

2. **The Department of Correction should take appropriate action to comply with or amend statutory and regulatory requirements regarding the establishment of an inmate discharge savings account program and the recovery of incarceration costs from inmates.**

   Comment:

   The department remains out of compliance with statutory or regulatory requirements for the deduction of ten percent of deposits from inmate accounts to be used for a discharge savings account or for the recovery of the costs of incarceration.

3. **The Department of Correction should take the steps necessary to ensure providers are disclosing all related party transactions.**

   Comment:

   We noted a provider failed to disclose that it was leasing a house from its executive director. As a result, the department did not monitor whether any costs associated with the house were in compliance with OPM's allowable cost standards for related party transactions.

4. **The Department of Correction should ensure that inmates are correctly paid; inventory reports reflect actual inventory value and are prepared in accordance with the State Comptroller's guidelines.**

   Comment:

   Our review of the Correctional Industries Fund found inmates were improperly paid for a day off, inventory amounts reported to the Comptroller contained significant amounts of obsolete inventory and the inventory balance reported to the Comptroller did not agree with the Correctional Industries Fund balance sheet as of June 30, 2011.

5. **The Department of Correction should maintain sufficient documentation to ensure the accuracy of payments to employees who also work for outside agencies.**

   Comment:

   We found that the department was not sufficiently monitoring whether there was any conflict between hours worked by two employees who were also working for a provider.

6. **Correctional Enterprises of Connecticut should seek to operate its optical shop as intended by the general statues to provide its inmates, Medicaid recipients and all others under care in state facilities with cost-effective access to prescription eyeglasses.**

   Comment:

   Section 18-88 subsection (b) of the General Statutes allows for the production of prescription glasses by the CEC optical shop for inmates, persons under state care in other institutions and those receiving Medicaid benefits. The CEC has been contracting with Massachusetts to provide for the filling of prescriptions since its optical technician retired in 2009 and the position has not been refilled. The statute requires the CEC to have a licensed optician supervising its operations. The hiring of such person would allow for the CEC to provide cost-effective prescription eyeglasses instead of outsourcing out-of-state and provide additional state income.

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, 2010 and 2011. This audit was primarily limited to performing tests of the department's compliance with certain provisions of laws, regulations, contracts and grant agreements and to understanding and evaluating the effectiveness of the department's internal control policies and procedures for ensuring that (1) the provisions of certain laws, regulations, contracts and grant agreements applicable to the department are complied with, (2) the financial transactions of the department are properly initiated, authorized, recorded, processed and reported on consistent with management's direction, and (3) the assets of the department are safeguarded against loss or unauthorized use. The financial statement audits of the Department of Correction for the fiscal years ended June 30, 2010 and 2011, 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 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 grant agreements and to obtain a sufficient understanding of the internal controls to plan the audit and determine the nature, timing and extent of tests to be performed during the conduct of the audit.

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

Management of the Department of Correction is responsible for establishing and maintaining effective internal control over financial operations, safeguarding of assets, and compliance with the requirements of laws, regulations, contracts, and grants. In planning and performing our audit, we considered the Department of Correction's internal control over its financial operations, safeguarding of assets, and compliance with requirements as a basis for designing 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 grant agreements, but not for the purpose of expressing an opinion on the effectiveness of the department's internal control over those control objectives. Accordingly, we do not express an opinion on the effectiveness of the Department of Correction's internal control over those control objectives.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions to prevent, or detect and correct on a timely basis, unauthorized, illegal or irregular transactions, or breakdowns in the safekeeping of any asset or resource. A *material weakness* is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that noncompliance which could result in significant unauthorized, illegal, irregular or unsafe transactions and/or material noncompliance with certain provisions of laws, regulations, contracts, and grant agreements that would be material in relation to the department's financial operations will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial operations, safeguarding of assets, and compliance with requirements was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial operations, safeguarding of assets, and compliance with requirements that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over the department's financial operations, safeguarding of assets, or compliance with requirements that we consider to be material weaknesses, as defined above.

Compliance and Other Matters:

As part of obtaining reasonable assurance about whether the Department of Correction complied with laws, regulations, contracts and grant agreements, 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 department's financial operations, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements. However, providing an opinion on compliance with those 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 or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain matters which we reported to department's management in the accompanying Condition of Records and Recommendations sections of this report.

The Department of Correction's response to the findings identified in our audit is described in the accompanying Condition of Records section of this report. We did not audit the Department of Correction's response and, accordingly, we express no opinion on it.

The report is intended for the information and use of the department management, 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 Purchla
Principal Auditor

Approved:

John C. Geragosian
Auditor of Public Accounts

Robert M. Ward
Auditor of Public Accounts