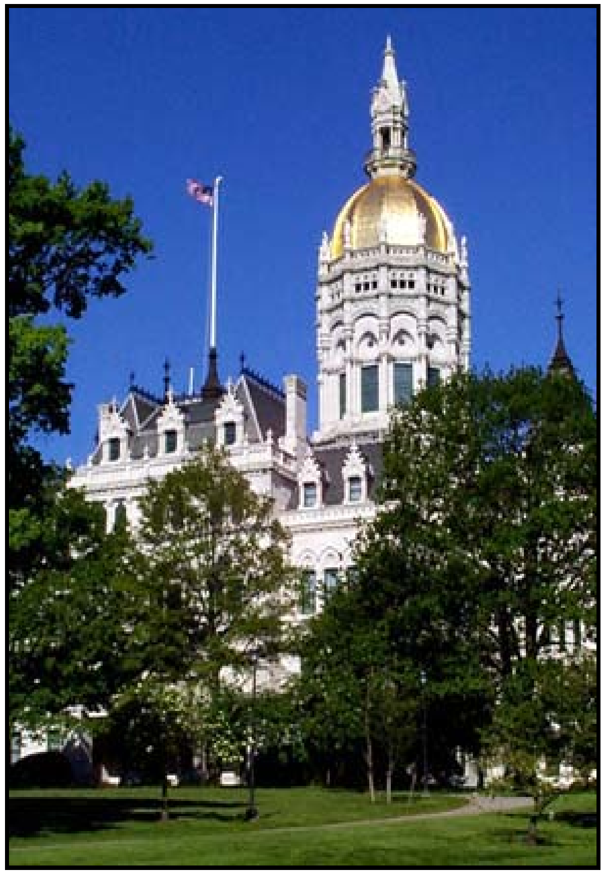
STATE OF CONNECTICUT



AUDITORS' REPORT
DEPARTMENT OF CORRECTION
FOR THE FISCAL YEARS ENDED JUNE 30, 2008 AND 2009

AUDITORS OF PUBLIC ACCOUNTS
KEVIN P. JOHNSTON ❖ ROBERT G. JAEKLE

Table of Contents

March 25, 2011

AUDITORS' REPORT
DEPARTMENT OF CORRECTION
FOR THE FISCAL YEARS ENDED JUNE 30, 2008 AND 2009

We have made an examination of the financial records of the Department of Correction for the fiscal years ended June 30, 2008 and 2009. 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 the operations of the Department including the overall supervision and direction of all institutions, facilities and activities of the Department. Theresa C. Lantz continued to serve as Commissioner throughout the audited period. Theresa C. Lantz retired effective July 1, 2009, and Brian Murphy was appointed as Acting Commissioner of the Department of Correction. Brian Murphy served as Acting Commissioner until July 30, 2010 when Leo Arnone was appointed as Commissioner of the Department of Correction.

Agency business operations are located within its administrative offices in Wethersfield. The Department operates the following 18 correctional facilities that include correctional institutions (CI) and correctional centers (CC):

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

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 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.

According to Department statistics, total incarcerated population as of June 30, 2009, was 18,891 consisting of 17,652 males and 1,239 females. In addition to incarcerated inmates, the Department oversaw 4,540 level one inmates released into the community as of June 30, 2009.

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 which is 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 either house of the General Assembly.

RÉSUMÉ OF OPERATIONS:

General Fund Revenues and Receipts:

General Fund receipts of the Department of Correction for the audited period were as follows:

	Fiscal Year Ended June 30, 2008	2009
Recoveries – inmates cost of incarceration	3,193,221	3,782,847
Child nutrition program	1,064,345	1,026,959
Board of inmates in jail	702,469	307,996
Refunds of expenditures – prior years	7,549	604,743
Other miscellaneous fees	366,400	412,400
Sales and use tax – State agencies	310,023	294,229
All other revenue	164,756	172,940
Total Revenues and Receipts	**$ 5,808,763**	**$ 6,602,114**

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 receipts decreased by $3,996,273 and increased by $793,351 during the 2007-2008 and 2008-2009 fiscal years, respectively. Decreases in the 2007-2008 fiscal year were primarily due to decreases in board of inmates in jail recoveries of $3,863,359, and refund of expenditures – prior years decreases of $697,248. These decreases were offset by increases of $737,566 in recoveries – inmates cost of incarceration. Decreases in board of inmates in jail had resulted from the DOC not being able to negotiate a new reimbursement rate for inmate care with the Federal Department of Homeland Security, Immigration and Customs Enforcement (ICE), resulting in fewer days of care for their detainees. Decreases in refunds of expenditures – prior years was primarily attributable to a $594,695 adjustment made by the State Treasurer's Office to correct cash recording errors that had occurred in past years.

Increases in the 2008-2009 fiscal year resulted primarily from increases of $589,627 in recoveries–inmates cost of incarceration and $597,230 in refunds of expenditures–prior years which were offset by further decreases of $394,473 in board of inmates in jail due to fewer days of care for ICE detainees.

General Fund Expenditures:

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

	Fiscal Year Ended June 30, 2008	2009
Personal services	$441,147,802	$453,460,978
Contractual services – Medical fees	107,245,421	103,194,273
Contractual services – All other	93,809,760	97,265,442
Commodities – Food	17,144,468	17,613,991
Commodities – All other	13,835,262	11,930,233

Workers' Compensation	24,129,839	26,629,797
Sundry	3,100	6,750
Equipment	98,681	38,372
Total Budgeted Accounts	**$697,414,333**	**$710,139,836**

Budgeted account expenditures increased by $65,924,498 and $12,727,503 during the fiscal years ended June 30, 2008 and 2009, respectively. Personal services, contractual services-medical fees, and contractual services-all other costs accounted for the majority of changes in budgeted account expenditure levels. The lower increase in expenditure levels during the 2008-2009 fiscal year was largely attributable to Statewide budgetary constraints that resulted in a number of cost reduction actions, including an early retirement incentive program.

Personal services increases of $28,923,465 and $12,313,176 during the respective audited fiscal years were due to annual salary increases and changes in staffing levels. Staffing levels increased from 6,728 full-time positions at June 30, 2007, to 6,786 positions at June 30, 2008, and decreased to 6,670 positions at June 30, 2009. Decreases in filled positions were attributable to hiring freezes and an early retirement incentive as a result of Statewide budgetary constraints.

Contractual services–medical fees consisted almost exclusively of payments to the University of Connecticut Health Center made under a memorandum of understanding to provide a comprehensive managed health care program for inmates. Medical fee payments increased by $16,568,384 during the 2007-2008 fiscal year and decreased by $4,051,148 during the 2008-2009 fiscal year as a result of changes in service levels and operating costs.

Contractual services-all other increased by $16,015,362 and $3,455,682 during the respective audited fiscal years. Major increases in expenditure levels in the 2007-2008 fiscal year included increases of $6,057,595 in utility costs, $3,328,669 in private provider payments for community service programs for inmates, $1,943,763 in premises repairs and maintenance supplies, and a $1,208,546 decrease in collections of Federal Marshall Office recoveries for inmate care that are applied as refunds of expenditures. Increases in the 2008-2009 fiscal year were primarily attributable to increases in community service private provider payments of $3,633,385 for inmate programs.

Special Revenue Fund - Federal and Other Restricted Accounts:

Federal and other restricted account receipts for the fiscal year ended June 30, 2008 and 2009, were as follows:

	2007 – 2008	**2008 – 2009**
Federal	$ 3,838,735	$ 4,410,221
Other than Federal	791,291	747,931
Total Receipts	**$ 4,630,026**	**$ 5,158,152**

Expenditures from Federal and other restricted accounts for the fiscal year ended June 30, 2008 and 2009, are presented below:

	For The Fiscal Year Ended June 30					
	2008			2009		
	Total	**Federal**	**Other**	**Total**	**Federal**	**Other**
Personal Services	$1,144,927	$1,019,223	$ 125,704	$1,475,039	$1,314,212	$ 160,827
Contractual services	1,352,324	970,694	381,630	1,375,566	1,064,303	311,263
Commodities	750,100	156,816	593,284	616,014	151,856	464,158
Fringe benefits	564,480	559,937	4,543	581,519	546,931	34,588
Sundry	35,821	24,193	11,628	43,388	22,879	20,509
Equipment	119,426	77,756	41,670	56,870	32,710	24,160
Total Expenditures	**3,967,078**	**2,808,619**	**1,158,459**	**4,148,396**	**3,132,891**	**1,015,505**
Transfers				2,770,170		2,770,170
Totals	**$3,967,078**	**$2,808619**	**$1,158,459**	**$6,918,566**	**$3,132,891**	**$3,785,675**

Federal and other restricted account expenditures were relatively stable during the audited period with changes in expenditure levels being primarily attributable to Federal grant activity. In addition to the expenditures presented above, transfers were made in the 2008-2009 fiscal year of $2,672,368 from the Welfare Fund and $97,802 from the Café 24 account to the General Fund. These transfers were made as part of a Statewide deficit mitigation plan, as authorized under the provisions of Public Act 09-111.

Other Special Revenue Funds:

Special Revenue Fund expenditures, excluding “Federal and other restricted accounts”, totaled $2,902,154 and $1,686,516 for the 2007-2008 and 2008-2009 fiscal years, respectively. This includes expenditures of $151,000 and $138,655 for renovation projects, and equipment purchases made through the Capital Equipment Purchases Fund totaling $2,751,154 and $1,547,861 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/or 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 65 percent of CEC sales were to the Department of Correction and approximately 17 percent were to the Department of Motor Vehicles. The Inmate Commissaries sell various personal supplies and food items to inmates. Monies are transferred from the individual Inmates’ 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, 2007	**$ 1,168,543**	**$ 4,236,681**	**$ 5,405,224**
Receipts	9,334,508	14,729,843	24,064,351
Disbursements	(7,872,380)	(14,506,936)	(22,379,316)
Cash Balance, June 30, 2008	**2,630,671**	**4,459,588**	**7,090,259**
Receipts	8,036,819	14,779,668	22,816,487
Disbursements	(7,791,092)	(15,041,117)	(22,832,209)
Transfers	(1,200,000)	(1,613,133)	(2,813,133)
Cash Balance, June 30, 2009	**$ 1,676,398**	**$ 2,585,006**	**$ 4,261,404**

Increases in cash balances at June 30, 2008 of $1,685,035 were primarily attributable to CEC operations, as receipts had exceeded expenditures by $1,462,128. This was mainly attributable to lower cash outlays on a cash basis as a result of using existing inventory. Decreases in cash balances at June 30, 2009 of $2,828,855 were primarily due to transfers of $2,813,133 made to the General Fund as part of a Statewide deficit mitigation plan, as authorized under the provisions of Public Act 09-111. These transfers included $1,200,000 from CEC operations for repayment of working capital loan funds that were previously provided by the General Fund and $1,613,133 from commissary earnings.

Per Capita Costs:

The weighted average daily per capita cost for the operation of correctional facilities, as calculated by the State Comptroller for the 2007-2008 fiscal year was $130. The cost for the 2008-2009 fiscal year was $133.

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 as of June 30, 2009, totaled $2,703,618 for the Inmates' Fund and $82,948 for the Special Projects Activity Fund.

CONDITION OF RECORDS

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

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:	Testing of 20 Inmate Fund deposits totaling $1,818 disclosed that seven deposits amounting to $384 were deposited from one to two days late.
Effect:	The above incidents are violations of Section 4-32 of the General Statutes.
Cause:	Cash receipts were not always processed in a timely manner.
Recommendation:	The Department of Correction should ensure that deposits are made in a timely manner in accordance with Section 4-32 of the General Statutes. (See Recommendation 1.)
Agency Response:	"A detailed review of unit calendars for the periods noted in the finding demonstrates that in each case the unit was operating at limited capacity due to holidays, vacation and sick time. Positions in the unit have been reduced by 25 percent subsequent to the hiring freeze effective in late fiscal year 2008. The unit has been instructed to more closely monitor approvals for vacation time to assure adequate staffing. In addition, financial clerks from other units have been trained on completion of generic tasks (procedures for opening mail, stamping and endorsing money orders), to allow unit staff to work on more technical aspects. Implementation of electronic deposit processing has eliminated internal handling for 25 percent of deposits in recent months, and we are moving toward expanding use of this technology in the future."

Inmate's Discharge Savings Accounts and Incarceration Cost Recoveries:

Background:	The Department maintains an inmate fund to account for inmate monies received from work assignments, families and other approved sources. Individual accounts are maintained within this for fund for each inmate. The majority of these funds are used to purchase approved products from the prison commissary.

Statutes and regulations have established requirements that a portion of inmate deposits be used to recover the cost of incarceration or for establishing an inmate savings program to provide funds upon release from prison. The Department has not complied with either program requirement.

Criteria: Section 18-85a-4 of the State Regulations 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 inmate's 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.

Section 18-84a of the General Statutes establishes, effective July 1, 2007, an inmate discharge savings account program to be funded by deductions of up to ten percent on all deposits made to an inmate's individual account. When an inmate's discharge savings account equals one thousand dollars, deductions of ten percent on all deposits to the inmate's account are to be used for recovering the inmate's costs of incarceration.

Condition: The Department has not begun to comply with statutory or regulatory requirements, which require that ten percent be deducted from inmates' account receipts to fund a discharge savings account or for the recovery of the costs of incarceration.

Effect: The Department was not in compliance with either statutory or regulatory requirements.

Cause: The Department has been unsuccessful in obtaining legislative changes they feel are needed to address accounting and other issues for implementing the new discharge savings account program and to address recovery of costs of incarceration from inmates.

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 and 10-457) adopted. We intend to propose the necessary revisions once again in the 2011 Session."

Telephone Commissions:

Criteria: Section 18-81x of the General Statutes requires the State Department of Information Technology to transfer $350,000 in each fiscal year to the Department of Correction for commissions relating to pay telephone service used by inmates at correctional facilities. Such funds are to be used for expanding inmate education services and reentry program initiatives.

Condition: During the 2008-2009 fiscal year, telephone commissions of $20,629 were inadvertently used to reduce fiscal department operating costs instead of expanding education services and reentry program initiatives.

Effect: Telephone commissions totaling $20,629 were not used for the intended purposes of either expanding education services and/or reentry program initiatives.

Cause: The 2008-2009 fiscal year was the first time the Department had used telephone commission revenues to fund reentry program initiatives and encountered accountability weaknesses in administering these funds.

Recommendation: 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. (See Recommendation 3.)

Agency Response: "The Agency agrees that $20,629 was not used to expand education or reentry initiatives, but we wish to clarify that the funds were not re-directed to meet other purposes. The majority of the un-spent balance of telephone commissions simply lapsed in the clearing account we utilized to segregate the funds. A lesser amount reduced general expenses in our Education Department.

Upon passage of CGS Section 18-81x the Agency requested that a unique Special Identification Code (SID) be established to account for funds transferred from the Department of Information Technology.

The Office of the State Comptroller declined, as the funding did not meet the standard of a legislatively approved appropriation. As an alternative we receive each quarterly transfer from DOIT as a reimbursement of current year expenditures. We utilized SID 10020 “Other Expenses”, the “Fiscal Services” department code (DOC88251) and “Educational Services” account (51290) solely to receive the transfers. As specific commitments and expenditures were made in accordance with Section 18-81x, an adjustment was made to apply a matching reimbursement from the Fiscal Services account to the expending department and account codes. A total of $18,003.87 was not expended to a specific educational or reentry expansion initiative during the course of the year, and it lapsed as a negative expenditure in the Fiscal Services account where it had been received. The balance of funds at issue, $2,625, had been obligated for the purchase of educational testing materials. An appropriate matching coding adjustment had been made to reimburse the appropriate Education Services department codes for this expense; however the vendor did not deliver within the fiscal year. The commitment lapsed, reducing our Education Department’s operating costs.

Lacking an SID code that accounts for all telephone commissions activity, transfers are cleared through an account that has not been designed for that purpose. If we are unable to expend precisely $350,000 to expand the specified programs, an impact on the clearing account results.”

Correctional Enterprises – Cost Accounting Records:

Criteria: The Correctional Enterprises of Connecticut’s (CEC) 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 and procedures manual states the following:

1. Policy 1.2.1 – requires the maintenance of cost and pricing information to measure performance and to assist in identifying problems and situations needing management attention.
2. Policy 1.2.7 – states that CEC should be a self supporting entity, selling goods and services at a value greater than raw materials, direct labor and direct factory costs with a profit margin remaining.

Conditions: Our review of CEC operations noted the following weaknesses:

1. Cost accounting information was generally not used in calculating the selling price for custom orders.
2. Cost accounting worksheets for many items were not maintained on a current basis. Overhead costs, current raw material costs and comparison of sales pricing to prevailing market prices were generally not included or out of date on cost accounting worksheets.
3. Several CEC shop operations have historically incurred significant losses.
4. A review of two shop operations showed that 25 percent of their $2.5 million inventory was obsolete or stagnate (not moving). The inventory of these two shops accounts for approximately 75 percent of CEC's total inventory.

Effect: 1 & 2. Without the proper maintenance of cost information, management oversight over costs and pricing of CEC's products and services is weakened.

3. Losses from unprofitable shops have been offset by gains from profitable shops.
4. A large portion of inventory maintained on CEC's financial records is overstated due to obsolete or slow moving inventory.

Cause: 1 & 2. Appropriate cost and pricing information was not being used to ensure that all costs, including fixed, variable costs and overhead costs, are being covered by the selling price of goods and services sold.

3. CEC management has not taken actions to rectify significant losses continuously incurred by several shops.
4. CEC management has not taken action to write-down or write-off the value of obsolete and/or slow moving inventory items.

Recommendation: 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. (See Recommendation 4.)

Agency Response: "The Agency acknowledges the findings and is addressing the issues through technology upgrades to replace antiquated systems. After a lengthy request process the Agency has recently been allowed to integrate an upgrade of its financial reporting software. In addition, an upgrade of the inventory software system utilized at the CEC shop locations has recently been undertaken, with a complete install at all shop locations anticipated within the next few months. The Osborn CI shop location is the first to receive the upgrade and is currently running parallel systems before final crossover. To provide specialized technical assistance, the Agency has received approval to hire a Information Technology Analyst who will provide dedicated expertise and support to CEC supervisors and management.

While comprehensive collection of pricing information including comparison to prevailing market pricing was not completed, cost analysis, pricing and market comparisons took place on an ad hoc basis using the available systems.

Several shops, including the Print, Graphic Arts, Furniture and Dental Lab continue to be a challenge in generating revenue necessary to meet operational costs in a very competitive market. It should be noted that the instructional and program value of individual shops and the number of inmates afforded useful work are considered in combination with overall profitability. Nevertheless, after the long-delayed hire of an instructor for the Dental Lab did not serve to generate sufficient sales, we closed the shop in July 2010.

CEC management is evaluating various proposals to replace obsolete "type-set' equipment at the Osborn Print Shop and utilize state of the art digital technology to achieve efficiencies. At the Cheshire Graphic Arts shop, we have invested in new equipment that will increase capacity, speed, and the quality of product, to allow CEC to be more competitive and profitable. In the Furniture/Upholstery Shop, we continue to expand the customer base and have increased sales volume by 49 percent in fiscal year 2010 as compared to fiscal year 2009.

The Agency agrees that the obsolete and/or slow moving inventory items need to be addressed and our intent is to write-off the value during the current fiscal year. In Fiscal Year 2008, CEC wrote off $252,393 in obsolete raw materials and $165,211 in stale finished goods."

Correctional Enterprises – Annual Business Plan:

Criteria: Department of Correction Administrative Directive 10.20, Section 4 B, requires that prior to July 1, an annual business plan be developed for the following fiscal year for operations of the Correctional Enterprises of Connecticut.

Condition: An annual business plan for Correctional Enterprises of Connecticut was not prepared for the fiscal years ended June 30, 2008 and 2010. Subsequent to the audited period, a business plan for the fiscal year ending June 30, 2011 had not been finalized or submitted for approval as of August 17, 2010.

Effect: The Correctional Enterprises of Connecticut was not in compliance with their administrative directive.

Cause: An annual business plan was not consistently prepared to cover each fiscal year's operation.

Recommendation: The Correctional Enterprises of Connecticut should prepare annual business plans for its operations as required by Department of Correction policy. (See Recommendation 5.)

Agency Response: "The Agency agrees with this finding. The Fiscal Year 2011 business plan is under revision and will be submitted to the Commissioner for approval upon completion. The Director's focus has been on the day to day operations and meeting direct supervisory requirements resulting from position vacancies. Declining market conditions have made timely and effective planning both more important and more problematic."

RECOMMENDATIONS

Our prior report on the Department of Correction contained five recommendations. Of these recommendations, one has been implemented or otherwise resolved and four have been repeated herein. As a result of our current examination, we have included one new recommendation on accountability over expending telephone commission receipts. The status of the prior recommendations is presented below:

- **The Department of Correction should ensure that all deposits are made in a timely manner in accordance with Section 4-32 of the General Statutes** - Late deposits were again encountered for Inmate Fund operations and this recommendation is being repeated. (See Recommendation 1.)

- **The Department of Correction should take appropriate action to comply with or amend regulations regarding the recovery of incarceration costs from inmates** - The Department has not yet begun complying with statutory requirements to deducted ten percent from inmates' accounts receipts for the establishment of an inmate savings program and/or for the recovery of the costs of incarceration. As a result, the recommendation is being repeated. (See Recommendation 2.)

- **Inmate payroll records should be properly retained in accordance with State records retention policies and Department of Correction procedures –** Improvements were made in the maintenance of inmate payroll records and as a result, this recommendation is not being repeated.

- **The maintenance of cost accounting information on the Correctional Enterprises of Connecticut's operations should be improved to ensure that manufacturing and service costs are accurate and that sale prices are compared to applicable prevailing market price** - Weaknesses in the maintenance of cost and pricing information continue to exist and this recommendation is being repeated. (See Recommendation 4.)

- **The Correctional Enterprises of Connecticut should prepare annual business plans for its operations as required by Department of Correction policy** - Weaknesses in preparing an annual business plan continued to exist and this recommendation is being repeated. (See Recommendation 5.)

Current Audit Recommendations:

1. **The Department of Correction should ensure that deposits are made in a timely manner in accordance with Section 4-32 of the General Statutes.**

Comment:

The testing of cash receipts noted several incidents of late deposits.

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 saving account program and the recovery of incarceration costs from inmates.**

   Comment:

   > The Department has not yet begun complying with statutory or regulatory requirements for the deduction of ten percent of deposits from inmates' account to be used for a discharge savings account or for the recovery of the costs of incarceration.

3. **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.**

   Comment:

   > Telephone commissions of $20,629 in the 2008-2009 fiscal year were not used for the intended purposes of expanding inmate education services and reentry program initiatives.

4. **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.**

   Comment:

   > Our review noted several shop operations which have historically incurred significant losses and that improvements were needed in the maintenance of cost accounting records for Correctional Enterprises of Connecticut operations.

5. **The Correctional Enterprises of Connecticut should prepare annual business plans for its operations as required by Department of Correction policy.**

   Comment:

   > Annual business plans for Correctional Enterprises of Connecticut were not prepared for the fiscal years ended June 30, 2008 and 2010, as required by Department of Correction policy.

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, 2008 and 2009. This audit was primarily limited to performing tests of the Agency's compliance with certain provisions of laws, regulations, contracts and grant agreements 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 grant agreements applicable to the Agency are complied with, (2) the financial transactions of the Agency are properly initiated, authorized, recorded, processed and reported on consistent with management's direction, 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, 2008 and 2009, 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:

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 Agency's financial operations, safeguarding of assets, and compliance with certain provisions of laws, regulations, contracts and grant agreements, but not for the purpose of providing assurance on the effectiveness of the Agency's internal control over those control objectives.

Our consideration of internal control over financial operations, safeguarding of assets, and compliance requirements was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial operations, safeguarding of assets and compliance with requirements that might be significant deficiencies or material weaknesses. However as discussed below, we identified certain deficiencies in internal control over financial operations, safeguarding of assets, and compliance with requirements that we consider to be significant deficiencies.

A *control deficie*ncy 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 on a timely basis unauthorized, illegal, or irregular transactions or the breakdown in the safekeeping of any asset or resource. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the Agency's ability to properly initiate, authorize, record, process, or report financial data reliably, consistent with management's direction, safeguard assets, and/or comply with certain provisions of laws, regulations, contracts, and grant agreements such that there is more than a remote likelihood that a financial misstatement, unsafe treatment of assets, or noncompliance with laws, regulations, contracts and grant agreements that is more than inconsequential will not be prevented or detected by the Agency's internal control. We consider the following deficiencies, described in detail in the accompanying "Condition of Records" and "Recommendations" sections of this report, to be significant deficiencies in internal control over financial operations, safeguarding of assets and compliance with requirements:

Recommendation 3 – Accountability over expenditure of telephone commissions.
Recommendation 4 – Cost accounting records not being maintained on a comprehensive basis, including overhead and other fixed costs.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that noncompliance with certain provisions of laws, regulations, contracts, and grant agreements or the requirements to safeguard assets that would be material in relation to the Agency's financial operations, noncompliance which could result in significant unauthorized, illegal, irregular or unsafe transactions, and/or material financial misstatements by the Agency being audited will not be prevented or detected by the Agency's internal control.

Our consideration of the internal control over the Agency's financial operations, safeguarding of assets, and compliance with requirements, was for the limited purpose described in the first paragraph of this section and would not necessarily disclose all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that neither of the significant deficiencies described above is a material weakness.

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 Agency'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 Agency 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 are 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.

This report is intended for the information and use of Agency 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.

Anthony Turko
Principal Auditor

Approved:

John C. Geragosian
Auditor of Public Accounts

Robert M. Ward
Auditor of Public Accounts