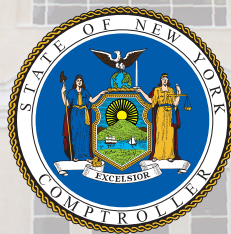




New York City Department of Correction

Rikers Island Central Cashiers Office: Control and Accountability Over Bail Funds

2009-N-7



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of State Government Accountability

January 14, 2010

Dora B. Schriro
Commissioner
New York City Department of Correction
75-20 Astoria Boulevard, Suite 305
East Elmhurst, NY 11370

Dear Ms. Schriro:

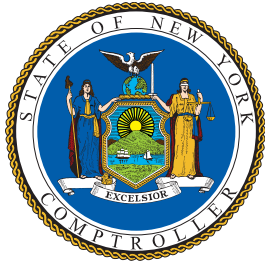
The Office of the State Comptroller is committed to helping State agencies, public authorities and local government agencies manage government resources efficiently and effectively and, by so doing, providing accountability for tax dollars spent to support government operations. The Comptroller oversees the fiscal affairs of State agencies, public authorities and local government agencies, as well as their compliance with relevant statutes and their observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving operations. Audits can also identify strategies for reducing costs and strengthening controls that are intended to safeguard assets.

Following is a report of our audit of the New York City Department of Correction's control and accountability over bail funds at the Rikers Island Central Cashiers Office. The audit was performed pursuant to the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution and Article III of the General Municipal Law.

This audit's results and recommendations are resources for you to use in effectively managing your operations and in meeting the expectations of taxpayers. If you have any questions about this report, please feel free to contact us.

Respectfully submitted,

*Office of the State Comptroller
Division of State Government Accountability*



State of New York Office of the State Comptroller

EXECUTIVE SUMMARY

Audit Objectives

Our objectives were to determine whether bail funds collected at the New York City Department of Correction's (Department) Rikers Island Central Cashiers Office (RICC) are adequately controlled and appropriately safeguarded, deposited, and remitted promptly to the New York City Department of Finance (DOF) for safekeeping.

Audit Results - Summary

Bail for individuals in the custody of the Department may be posted at RICC. RICC is responsible for recording the receipt of such bail funds, depositing the funds in its bank account, and remitting the funds to DOF for safekeeping. In the two years ended December 31, 2008, RICC reported receiving \$28.2 million in bail from nearly 13,000 bail transactions.

Overall, we found controls over the bail funds were adequate. We tested a sample of bail receipts and identified no missing bail funds. All the funds were deposited in RICC's bank account and remitted to DOF, as required. We also conducted an unannounced cash count of the bail funds in RICC's safe to determine whether all the bail funds that had been received that day were accounted for, and found that they were. However, we identified the need to strengthen certain controls that are intended to help safeguard bail funds while they are in the custody of RICC.

We found that bail funds are not always securely maintained, as they are sometimes not placed in the RICC safe promptly upon receipt. For example, three bail payments in our sample of 21 remained unsecured with the cashiers between two hours to almost eight hours before being placed in the safe. One payment was for \$20,000 in cash. When funds, particularly cash, are not secured for extended periods of time, there is an increased opportunity for theft or loss. Also, we found that the monthly bank reconciliations for the Bail Account are not done properly, increasing the risk that irregularities or errors can occur without being detected.

RICC is supposed to remit its bail funds to DOF within two business days of receipt. We were unable to determine whether the bail funds were remitted to DOF within two business days of receipt, because RICC does not maintain documentation of the remittance date. Opportunities for irregularities increase when bail funds are not remitted promptly for safekeeping.

Our report contains six recommendations for strengthening RICC's controls and safeguards over bail funds. Department officials agreed with our recommendations and indicated that they have begun to take steps to implement them.

This report, dated January 14, 2010, is available on our website at: <http://www.osc.state.ny.us>.

Add or update your mailing list address by contacting us at: (518) 474-3271 or

Office of the State Comptroller

Division of State Government Accountability

110 State Street, 11th Floor

Albany, NY 12236

Introduction

Background

The New York City Department of Correction (Department) provides for the care, custody and control of persons accused or convicted of crimes or sentenced to one year or less of jail time. More than 100,000 inmates are admitted to the Department's three facilities annually.

If bail is authorized by the court for an individual who is awaiting trial in a Department facility, the individual is released from custody when the bail is posted at the facility. The facility is responsible for recording the receipt of the bail money, depositing the money in its bank account, and promptly remitting the funds to the New York City Department of Finance (DOF) for safekeeping.

According to the Department's records, in the two years ended December 31, 2008, its facilities remitted a total of \$71 million in bail funds to DOF from more than 34,000 bail transactions. The Department's Rikers Island Central Cashiers Office (RICC) accounted for \$28.2 million of these bail funds and 12,945 of the bail transactions.

RICC was opened in 2005, consolidating the inmate-related financial operations that were previously performed at ten separate facility locations on Rikers Island. RICC processes bail transactions, as well as inmate account transactions. Staffed by a Banking Operations Manager and a team of supervisors and cashiers, RICC's operations are directed by a Deputy Warden for Administration.

The Department's Bail Procedures Directive 1502R (Directive 1502R) establishes detailed policies and procedures for the receipt, recording, depositing, remitting, and processing of bail funds at Department facilities. For example, Directive 1502R states that the funds should be deposited in the facility's bank account by the end of the next business day and remitted to DOF within two business days of receipt. Directive 1502R also describes how the funds should be handled prior to deposit.

Audit Scope and Methodology

We audited to determine whether bail funds collected at RICC are adequately controlled and appropriately safeguarded, deposited and remitted promptly to DOF. Our scope period was January 1, 2007 through December 31, 2008. To accomplish our objectives, we interviewed officials and reviewed records at RICC. In particular, we selected a random sample of 25 of the 12,945 bail receipts processed by RICC during our two-year audit period. To determine if there were any instances of missing funds, for each bail receipt in the sample, we traced the bail receipt amount to the bank deposit,

and verified that the check issued to DOF cleared the bank account. To determine whether RICC performed a proper bank reconciliation for its Bail Account, we reviewed the bank reconciliations for January 2007 through December 2008. We also evaluated the internal controls over bail funds at RICC and conducted an unannounced cash count there.

We conducted our performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our objectives.

In addition to being the State Auditor, the Comptroller performs certain other constitutionally and statutorily mandated duties as the chief fiscal officer of New York State. These include operating the State's accounting system; preparing the State's financial statements; and approving State contracts, refunds, and other payments. In addition, the Comptroller appoints members to certain boards, commissions, and public authorities, some of whom have minority voting rights. These duties may be considered management functions for purposes of evaluating organizational independence under generally accepted government auditing standards. In our opinion, these functions do not affect our ability to conduct independent audits of program performance.

As is our practice, we requested a representation letter from Department management. The representation letter is intended to confirm oral representations made to the auditors, and to reduce the likelihood of misunderstandings. Agency officials normally use the representation letter to assert that, to the best of their knowledge, all relevant financial and programmatic records and related data have been provided to the auditors. They affirm either that the agency has complied with all laws, rules and regulations applicable to their agency's operations that would have a significant effect on the operating practices being audited, or that any exceptions have been disclosed to the auditors. However, officials of the Mayor's Office of Operations have informed us that, as a matter of policy, Mayoral agency officials do not provide representation letters in connection with our audits. As a result, we lack assurance from Department officials that all relevant information was provided to us during this audit.

Authority

The audit was performed pursuant to the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution and Article III of the General Municipal Law.

Reporting Requirements

A draft copy of this report was provided to Department officials for their review and comment. Their comments were considered in preparing this report and are attached in their entirety at the end of this report.

Within 90 days after the final release of this report, we request that the Commissioner of the New York City Department of Correction report to the State Comptroller, advising what steps were taken to implement the recommendations contained herein, and where recommendations were not implemented, and the reasons why.

Contributors to the Report

Major contributors to this report were Frank Houston, Albert Kee, Christine Chu, Jeffrey Marks, Jean-Renel Estime, Ryan Wendolowski and Dana Newhouse.

Audit Findings and Recommendations

Controls Over Funds

We identified no instances of missing bail funds. However, we identified weaknesses in certain accounting and other controls that are intended to help safeguard the funds while they are in the custody of RICC.

Accountability for Funds

During our two-year audit period, RICC reported processing 12,945 bail transactions totaling \$28.2 million. We randomly selected 25 of these transactions totaling \$49,758 and reviewed the relevant documentation to determine whether the funds were deposited intact and fully remitted to DOF, as required. We found that all 25 bail payments were deposited intact and the entire \$49,758 in bail funds was remitted to DOF.

According to Directive 1502R, the bail funds received by a facility should be stored in its safe (Bail Drop Safe) until the next business day, at which time the funds should be taken to the bank for deposit. Before a deposit is made, the funds should be counted by two individuals (two supervisors at RICC) and a deposit slip should be prepared. A check for the same amount and certain supporting documentation should then be taken to the DOF fiscal agent's lock box processing service (J.P. Morgan Chase) on either that day or the following business day. The Deputy Warden for Administration should verify the accuracy of the check and supporting documentation.

On August 26, 2009, we conducted an unannounced cash count of the funds in the RICC safe to determine whether all the bail funds that had been received that day had been placed in the safe. According to the facility's bail receipt records, eight bail payments totaling \$18,503 had been received that day. We determined that all \$18,503 was in the safe.

To help ensure proper accountability for bail funds, all deposit and remittance activities should be recorded in the Bail Drop Safe Log. In addition, the individuals performing the activities should sign the Log to affirm that the Log entries are accurate, and that the amounts of money indicated were, in fact, placed in or taken out of the safe.

We examined the Bail Drop Safe Log for the 25 bail receipts in our sample and found that the deposit and remittance of these funds was recorded on the Bail Drop Safe Log, as required. However, the signatures required for each transaction were not always present on the Log, as follows:

- For 20 of the 25 bail receipts, only one individual signed the Log to verify the amount of funds for deposit. There was no second signature, as required. In response to our preliminary findings, Department officials said that throughout the period of audit, bail fund deposits had been consistently verified by two supervisory personnel, but both failed to sign the safe logs acknowledging the performance of this function. They indicated that they have corrected this problem since February 2009.
- In all 25 transactions, no one signed the Log to verify the accuracy of the check and the supporting documentation remitted to DOF. In response to our preliminary findings, Department officials indicated that the authorized official signed on the incorrect line for 6 of the 25 transactions. They indicated that this has been corrected and that since February 2009, the official has been signing the certification correctly.

In the absence of these signatures, there is less assurance that the transactions are being accurately recorded and verified.

Monthly Bank Reconciliations

All bail funds received by a facility should be deposited into the facility's Bail and Fines Account (Bail Account). The funds should then be remitted to DOF by a check that is drawn on the Bail Account. The check register for the Bail Account should show how much money is in the account at any point in time. Receipts, disbursements and any adjustments should be recorded as they are made, and a running balance should be maintained. The monthly bank statement for the Bail Account shows how much money is in the account, as of the date of the bank statement.

Department facilities are required by Directive 1502R to perform monthly bank reconciliations of their Bail Accounts. The bank statement balance should be reconciled to the check register balance to ensure that the two sets of records agree on the amount of money that should be in the Bail Account. The bank reconciliations should be approved by the Deputy Warden for Administration and submitted to the Department's Financial Services Division for review.

We examined RICC's monthly bank reconciliations for its Bail Account and found that RICC does not perform proper bank reconciliations. RICC does not maintain a running balance in the Bail Account's check register, and as such, cannot reconcile the bank statement balance to the check register balance. As a result, RICC cannot determine what should be the correct bail account balance. We also found that the reconciliations were not always being approved by the Deputy Warden for Administration. We recommend that the Financial Services Division monitor the reconciliations more

closely and ensure that the staff are adequately trained in their financial duties. In response to our preliminary findings, on September 24, 2009, the Director of Financial Services Division, sent out new procedures on checkbook balances and monthly reconciliations, including requiring all facilities to immediately maintain a running balance in the Bail Account's check register.

We further determined that RICC was not complying with the New York City Comptroller's Directive 11 which states that adjustments on bank reconciliations should be written off after three months, subject to the review and approval of an appropriate official. For example, two adjustments on the bank reconciliation for January 2009 were from 2005.

The individual performing the bank reconciliation should have no other responsibilities for the funds being reconciled. Such a separation of duties provides assurance the funds are properly accounted for. If the duties are not properly separated, and the individual performing the reconciliation also handles the funds and/or maintains the account records, the reconciliation could be falsified to conceal errors or other irregularities.

We found that the individual who performs bank reconciliations for the Bail Account (the Banking Operations Manager) has other responsibilities for bail funds, as this individual also prepares the DOF check for signature and reviews the related documents. We recommend that the bank reconciliations be performed by an individual with no other responsibilities for bail funds.

Prompt Placement of Funds in the Bail Drop Safe

Bail funds received by a facility should be stored in its Bail Drop Safe (safe) while awaiting deposit. At RICC, bail funds are received by the cashiers in the Central Visit House. According to the Banking Operations Manager, the bail funds are placed in a special envelope and delivered as soon as possible to the Accounting Room, where they are to be placed in the safe.

To determine whether bail funds were being placed in the safe promptly upon receipt, we examined the 25 bail transactions in our sample to determine how long it took for the bail payments to be placed in the safe. We compared the date and time recorded on the bail receipt, to date and the time the payments were placed in the safe, as indicated on the safe log.

We excluded four of the sampled bail transactions from our analysis for the following reasons. One transaction (\$1 bail) was excluded because it was collected at a facility on Rikers Island and placed in the safe at that facility, instead of being collected at RICC. The other three transactions were

excluded because of errors in their recorded times - for each transaction, the time on the safe log was earlier than the time on the bail receipt form.

We analyzed the timeliness of the 21 remaining transactions in our sample. For the purposes of our analysis, we considered an elapsed time of 30 minutes to be reasonably prompt, as the Accounting Room with the safe is located in an adjacent room, on the same floor as the cashiers in the Central Visit House. In fact, 11 of the 21 bail payments were placed in the safe within 30 minutes of receipt. However, the remaining 10 bail payments were not placed in the safe promptly upon receipt, as it took more than 30 minutes and as long as 7 hours and 40 minutes for these payments to be placed in the safe. For example, a cash bail payment for \$20,000 took 2 hours and 43 minutes, and one for \$1,500 took 7 hours and 40 minutes.

For two of the 10 payments, Department officials explained that the delays (1 hour and 5 minutes, and 35 minutes) occurred because the cashier was processing multiple bails at the same time for the same inmate. They further indicated that an elapsed time of one hour is reasonable since the time indicated on the bail receipt is the time when the cashier begins the collection process. We still maintain that an elapsed time of 30 minutes to be reasonably prompt since 11 of the 21 bail payments were placed in the safe within 30 minutes of receipt.

When bail funds, especially cash, are not properly secured for extended periods before they are placed in the safe, there is an increased opportunity for theft or loss. We recommend Department management monitor the timeliness of bail funds being placed in the safe, and take corrective action when bail payments are not secured within a reasonable period of time.

Timeliness of Remittances

The bail funds received by a facility are to be remitted to DOF within two business days of receipt. The funds are to be remitted by a check that is drawn upon the facility's Bail Account. We were unable to determine whether bail funds were remitted to DOF within two business days of receipt since RICC does not maintain documentation of the remittance date. As a result, there is no assurance that the funds were remitted timely to DOF. Since the bail funds are deposited in an interest-bearing account at DOF, any delays would result in lost interest. In response to our preliminary findings, the Director of Financial Services Division sent out a memorandum, dated September 28, 2009, to all facilities, requiring them to obtain a signed and dated receipt for delivery of checks to DOF's Fiscal Agent.

- Recommendations**
1. Monitor the Bail Drop Safe Log to determine whether the responsible individuals are signing the Log as required, and take corrective action when they are not.
 2. Make the following improvements in the monthly bank reconciliations for the Bail Account:
 - Maintain a check register balance so that the reconciliation can be performed between that balance and the bank statement balance.
 - Provide appropriate training to the staff that maintain the check register and perform the reconciliations.
 - Instruct the Financial Services Division to closely monitor the reconciliations and take prompt corrective action when the reconciliations are not performed properly.
 - Remind the Deputy Warden to review and approve the bank reconciliations before they are submitted to the Financial Services Division.
 - Investigate and write off adjustments shown on the bank reconciliations after three months, subject to the review and approval of an appropriate official.
 3. Assign the responsibility of performing the monthly bank reconciliations to an individual who does not perform any other bail-related functions.
 4. Monitor the timeliness of bail funds being placed in the safe and take corrective action when the funds are not placed in the safe within a reasonable period of time.
 5. Maintain documentation showing when the bail fund remittance checks are sent to DOF's fiscal agent.
 6. Monitor the timeliness of bail fund remittances to DOF and take corrective action if the remittances are not made within two business days of receipt.

Agency Comments



NEW YORK CITY DEPARTMENT OF CORRECTION
Dora B. Schriro, Commissioner

Office of the Commissioner
75-20 Astoria Boulevard, Suite 305
East Elmhurst, N.Y. 11370
Tel: 718-546-0890
Fax: 718-278-6022

December 15, 2009

Frank Houston, Audit Director
Office of the Comptroller
Division of State Government Accountability
123 William Street, 21st Floor
New York, N.Y. 10038

Dear Mr. Houston,

Attached is the New York City Department of Correction's response to the Draft Audit Report 2009-N-7, entitled Controls and Accountability over Bail Funds – Rikers Island Central Cashiers Office. Please include our response and this cover letter as an appendix to the final report.

If you have any questions regarding this response, kindly contact Joel Lampert, Agency Audit Liaison, at (718) 546-0646.

Sincerely,

Dora B. Schriro

C: Jeffery Kay, Director, Mayor's Office of Operations

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New York City Department of Correction Response

**Audit Report on Controls and Accountability over Bail Funds – Rikers Island
Central Cashiers Office**

Recommendation #1

Monitor the Bail Drop Safe Log to determine whether the responsible individuals are signing the Log as required, and take corrective action when they are not.

Response to Recommendation #1

The Financial Services Division reviews all Bail Drop Safe Logs daily to determine that all required signatures are affixed. Those Logs missing required signatures are returned to the Rikers Island Central Cashiers Office (RICC) for prompt correction.

Recommendation #2(a)

Make an improvement in the monthly bank reconciliations for the bail account by maintaining a check register balance so that the reconciliation can be performed between that balance and the bank statement balance.

Response to Recommendation #2(a)

A running balance is being maintained in the RICC check register to ensure that the bank statement balance and the check register balance agrees as to the amount of money in the bail account.

Recommendation #2(b)

Make an improvement in the monthly bank reconciliations for the bail account by providing appropriate training to the staff that maintains the check register and perform the reconciliations.

Response to Recommendation #2(b)

The Banking Operations Manager for RICC has been trained to properly maintain the check register and perform the monthly bank reconciliations for the bail account.

Recommendation #2(c)

Make an improvement in the monthly bank reconciliations for the bail account by instructing the Financial Services Division to closely monitor the reconciliations and take prompt corrective action when the reconciliations are not performed properly.

Response to Recommendation #2(c)

The Financial Services Division will closely monitor the preparation of all completed bank reconciliations and promptly notify RICC management in writing of any inaccuracies discovered during the process.

Recommendation #2(d)

Make an improvement in the monthly bank reconciliation for the bail account by reminding the Deputy Warden to review and approve the bank reconciliations before they are submitted to the Financial Services Division.

Response to Recommendation #2(d)

The Deputy Warden has been reminded of his responsibility to review and approve the bank reconciliations before they are submitted to the Financial Services Division. Those reconciliations submitted without the appropriate approval signature affixed, will be promptly returned to RICC for correction.

Recommendation #2(e)

Make an improvement in the monthly bank reconciliation for the bail account by investigating and writing off adjustments shown on the bank reconciliations after three months, subject to the review and approval of an appropriate official.

Response to Recommendation #2(e)

The Department's written procedures in Directive # 1505 entitled, Write-offs for Facility Based Controlled Accounts with Financial Activity, is presently being revised. Once criteria outlined in the revised Directive are fully met, it is anticipated that the write-off of unreconciled differences will be accomplished within 30 days.

Recommendation #3

Assign the responsibility of performing the monthly bank reconciliation to an individual who does not perform any other bail-related functions.

Response to Recommendation #3

RICC management will re-assign all incompatible duties presently being performed by the individual responsible for preparing the monthly bail bank reconciliation.

Recommendation #4

Monitor the timeliness of bail funds being placed in the safe and take corrective action when the funds are not placed in the safe within a reasonable period of time.

Response to recommendation #4

The Financial Service Division will monitor the timeliness of bail funds being placed in the safe by comparing, on a random sample basis, the dates and times recorded on the bail receipts to the dates and times the payments were placed in the safe, as indicated on the daily Bail Drop Safe Logs. RICC management will be notified in writing to take prompt corrective action when timeliness issues are disclosed by this comparison.

Recommendation #5

Maintain documentation showing when the bail fund remittance checks are sent to DOF's fiscal agent.

Response to Recommendation #5

RICC is now required to obtain a signed and dated receipt each time that bail fund remittance checks are delivered to the Department of Finance's (DOF) fiscal agent.

Recommendation #6

Monitor the timeliness of bail fund remittances to DOF and take corrective action if the remittances are not made within two business days of receipt.

Response to Recommendation #6

As indicated in our response to recommendation # 5 above, RICC is now required to obtain a signed and dated receipt each time that bail funds remittance checks are delivered to DOF's fiscal agent. To monitor the timeliness of remittances, copies of these signed and dated RICC receipts are forwarded to the Financial Services Division, where the dates on the receipts are compared to the deposit dates that are shown on a report that is received monthly from DOF's fiscal agent. Delays in submission of remittances to DOF beyond the two prescribed business days are immediately reported to RICC management for prompt corrective action.