

State of New York
Office of the State Comptroller
Division of Management Audit

**DEPARTMENT OF CORRECTIONAL
SERVICES**

**CONTROLS OVER INMATE ACCOUNTS
AT FIVE CORRECTIONAL FACILITIES
IN NEW YORK CITY**

REPORT 95-S-89



H. Carl McCall
Comptroller



State of New York Office of the State Comptroller

Division of Management Audit

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Mr. Glenn S. Goord
Acting Commissioner
Department of Correctional Services
State Campus, Building 2
Albany, New York 12226

Dear Mr. Goord:

The following is our report addressing controls over inmate accounts at the Bayview, Edgecombe, Fulton, Lincoln and Parkside Correctional Facilities.

This audit was performed pursuant to the State Comptroller's authority as set forth in Section 1, Article V of the State Constitution and Section 8, Article 2 of the State Finance Law. We list major contributors to this report in Appendix A.

*Office of the State Comptroller
Division of Management Audit*

September 4, 1996

Executive Summary

Department of Correctional Services Controls over Inmate Accounts at Five Correctional Facilities in New York City

Scope of Audit

The Department of Correctional Services (Department) operates Work Release Programs at eleven correctional facilities. In these programs, they allow inmates into the community to work or be trained in job skills. To help defray the cost of their incarceration, they require these inmates pay the facilities a weekly fee, which the facilities are required to send to the State Treasury. Inmates' personal funds, including their paychecks from Work Release jobs, are managed by the facilities in accounts established for these funds.

Our audit addressed the following questions about controls over inmate accounts at five correctional facilities in New York City (Bayview, Edgecombe, Fulton, Lincoln and Parkside Correctional Facilities):

- ! Is the cash in these accounts properly accounted for?
- ! Are inmate fees collected and sent to the State Treasury as required by law?
- ! Can the Department's management administer inmate account Work Release transactions more efficiently and effectively?

Audit Observations and Conclusions

We found that, at four of the five facilities covered by our audit, the amount of inmates' cash in the bank was less than the amount indicated by facility records. Because internal controls at the facilities are so weak, we cannot rule out the possibility that the recorded shortages are the result of fraud. We also found that inmate fees were often not collected by the facility staff, and the fees they collected were sometimes not sent to the State Treasury. We further noted that, with certain improvements, inmate account transactions can be processed more efficiently and effectively.

Each month facility staff should reconcile their records of inmates' cash to the actual amount of cash in the bank. However, the staff at the five facilities covered by our audit do no such reconciliation. When we did the initial reconciliation, we found that the cash in the bank for each facility was less than the amount indicated by facility records and totaled about \$209,000. The combined recorded cash shortage after adjustments, totaled about \$105,000. Taxpayer funds must be used to reimburse such shortages. We plan to refer this matter to the State Inspector General for further investigation. (See pp. 5-7)

We identified several internal control weaknesses that may contribute to the recorded cash shortages at the five facilities. For example, because of inadequate training, facility managers often do not understand the importance of internal controls and staff does not understand their job responsibilities. We recommend Department management take a more active role in overseeing inmate accounts. (See pp. 7-10)

To help inmates in Work Release Programs find jobs, the facilities may lend funds to the inmates. We found that staff at three of the facilities covered by our audit do not adequately account for the loans and none of the staff take adequate steps to ensure the inmates repaid the loans when they are paroled or transferred to other facilities. During the 13 months ended April 30, 1995, \$77,890 in unpaid loans were accumulated at the five facilities. Since taxpayer funds reimburse such unpaid loans, we recommend that procedures be developed for ensuring that the inmates repay the loans. (See pp. 10-12)

Inmates in Work Release Programs are required to pay their facilities a weekly fee, which the facility staff is required to send to the State Treasury biweekly. However, we found that these fees were often not collected, and the collected fees were sometimes not sent to the State Treasury. We estimated that, over a 41-month period, the uncollected or unsent fees totaled about \$1.3 million. We identified several weaknesses in facility procedures for collecting and sending fees, and recommend that these weaknesses be corrected. (See pp. 13-18)

The automated system used by the Department to account for inmates' cash was not designed to deal with the fiscal requirements of Work Release Programs. Department management is considering enhancements to this system; we believe Department management could significantly improve the efficiency of the system, and they could more effectively control inmates' cash, if greater use were made of advanced computer technologies. (See pp. 19-22)

Comments of Department Officials

Department officials recognize the need to improve internal controls over inmate cash. They stated that the majority of the issues raised in the audit have or are currently being addressed by the Department. Officials minimize the significance of the uncollected or unsent fees and unpaid loans by indicating the Department has saved the taxpayers money through the Work Release program and collection of fees. We acknowledge the noteworthy accomplishments of the program; however, the implementation of better controls and procedures can enhance the accomplishments and significantly increase the savings to the taxpayers at a minimal cost.

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Introduction

Background

In 1969, according to Article 26 of the New York State Correction Law, the Department of Correctional Services (Department) established its Temporary Release Programs, in which inmates are allowed to go unescorted into the community for employment, education or other purposes. For example, in Work Release Programs, inmates may go outside their facilities to work or be trained in job skills. These inmates may live full-time in the community, reporting periodically to facility counselors, or they may still reside part-time at a facility. The Department operates Work Release Programs at eleven correctional facilities. Our audit addressed selected operations at five of these facilities (Bayview, Edgecombe, Fulton, Lincoln and Parkside Correctional Facilities), all of which are in New York City.

Many inmates in Work Release Programs are required to deposit their paychecks with the facilities. Facility staff disburses funds to these inmates based on budgets prepared with the help of Department counselors. Department management has established accounts at each correctional facility to receive and disburse inmates' funds. Facility staff maintain and control these accounts on the Inmate Commissary and Accounting System (ICAS).

An inmate accounts unit at each facility is responsible for overseeing the receipt and disbursement of inmates' funds, preparing monthly statements of cash balances, and reconciling facility records to bank statements. If the amount reflected on the Department's records exceeds the funds on deposit for the inmates, the Department must make up the shortage and, ultimately the taxpayers of New York bear this cost. As of September 30, 1995, the combined inmate account balance at the five facilities covered by our audit reportedly totaled \$1,124,823.

In 1992, the New York State Legislature imposed a charge on Work Release inmates to help defray the cost of their incarceration. Inmates who reside part-time at a facility are required to pay a weekly participation fee for their room and board; this fee ranges from \$10 to \$45 a week. Inmates who live in the community and report periodically to a facility are required to pay an administration fee of \$10 a week. The Department is required by law to send these fees to the State Treasury biweekly.

The Department's Central Office is responsible for setting overall policy for inmate accounts and Work Release Programs. The Central Office is also responsible for training facility staff and helping facilities resolve problems.

Audit Scope, Objectives and Methodology

We audited selected aspects of the inmate account operations at the Bayview, Edgecombe, Fulton, Lincoln and Parkside Correctional Facilities for the period January 1, 1992 through September 30, 1995. The objectives of our financial and compliance audit were to determine whether (1) the cash in the inmate accounts was properly accounted for, (2) the participation and administration fees were collected and sent to the State Treasury as required, and (3) inmate account transactions relating to the Work Release Programs were managed effectively and efficiently. To accomplish our objectives, we interviewed officials and staff and reviewed records at the five facilities and the Central Office. We also researched new and emerging computer technologies to determine whether they could make the ICAS more effective and efficient.

We conducted our audit according to generally accepted government auditing standards. Such standards require that we plan and perform our audit to adequately assess the operations of the Department and facilities which we include in our audit scope. Further, these standards require that we understand the Department's and the facilities' systems of internal controls and compliance with those laws, rules and regulations that are relevant to the operations which we included in our audit scope. An audit includes examining, on a test basis, evidence supporting transactions recorded in the accounting and operating records and applying such other auditing procedures as we consider necessary in the circumstances. An audit also includes assessing the estimates, judgments and decisions made by management. We believe that our audit provides a reasonable basis for our findings, conclusions and recommendations.

We use a risk-based approach when selecting activities to be audited. This approach focuses our audit efforts on those operations that we have identified through a preliminary survey as having the greatest probability for needing improvement. Consequently, by design, finite audit resources are used to identify where and how improvements can be made. Thus, we devote little audit effort to reviewing operations that may be relatively efficient or effective. As a result, our audit reports are prepared on an "exception basis." This report, therefore, highlights those areas needing improvement and does not address activities that may be functioning properly.

Internal Control and Compliance Summary

We identified material weaknesses in the internal controls over inmate accounts at Bayview, Edgecombe, Fulton, Lincoln and Parkside Correctional Facilities. We describe these weaknesses in the sections of this report entitled "Controls Over Inmate Account Cash Balances" and "Collection of Work Release Fees From Inmates." We also identified significant noncompliance with the law requiring inmate fees to be sent to the State Treasury. We describe this noncompliance in the section of this report entitled "Collection of Work Release Fees From Inmates."

Response of Department Officials

Draft copies on this report were provided to Department officials for their review and comment. Their comments have been considered in preparing this report and are included in Appendix B.

Within 90 days after final release of this report, as required by Section 170 of the Executive Law, the Commissioner of the Department of Correctional Services shall report to the Governor, the State Comptroller, and leaders of the Legislature and fiscal committees, advising what steps were taken to implement the recommendations contained herein, and where recommendations were not implemented, the reasons therefor.

Controls Over Inmate Account Cash Balances

To adequately control inmate cash receipts and disbursements, the Department must establish a comprehensive system of internal controls over inmate accounts. However, we found that Department and facility management have not established such a system at any of the five facilities covered by our audit. As a result, inmate receipts and disbursements at these facilities are not adequately accounted for. We identified cash shortages at four of the facilities; together these shortages totaled \$110,200. At one facility we identified an overage of about \$5,200. Department officials believe these shortages are most likely the result of clerical errors that could be corrected, not any attempts by staff to defraud the system. However, because the internal controls at the facilities are so weak, we cannot rule out the possibility that the identified shortages are the result of fraud. Accordingly, we plan to refer our findings to the State Inspector General's Office for investigation.

Although Department management issued cash control directives, we found that these directives were often not understood by facility staff and required clarification by Department officials. In addition, because of inadequate training, facility managers often did not understand the importance of internal control procedures and staff did not understand their job responsibilities. We note that, in an audit of Queensboro Correctional Facility (Report 93-S-68, which we issued in February 1994), we identified similar internal control weaknesses plus a recorded cash shortage of about \$44,000 in the inmate accounts. We recommend that Department management take a more active role in overseeing inmate accounts.

Discrepancies in Inmate Account Cash Balances

According to the New York State Accounting System User Procedure Manual and the Department's procedures, each month facility staff should reconcile their records of inmates' cash to the actual amount of cash in the bank. This procedure can identify discrepancies, including shortages caused by fraudulent transactions.

For example, as was shown by an internal Department investigation in 1995, the cashier at Wende Correctional Facility was able to steal funds before they were deposited in the bank because he knew the monthly reconciliation was not done. He reported the full amounts that should have been deposited to the person recording these funds in the ICAS ledger; consequently, the inmates got credited for the full amounts that should have been deposited. However, the cashier reported the actual lower amounts deposited (net of the funds he stole) to the person recording the deposits in the checkbook. Different amounts were recorded in the facility ledger and checkbook, but

Department staff did not detect this discrepancy for at least a year because they did not reconcile the two amounts to one another.

We found that none of the five facilities covered by our audit reconciled their records of inmates' cash to the actual amount of cash in the bank. As a result, the facility staff were less likely to detect any cash shortages. When we did these reconciliations, we found that the cash in the bank for each facility was less than the amount indicated by facility records. The combined recorded cash shortage at the five facilities totaled \$209,084.

We examined these discrepancies between the amounts of cash in the bank and the amounts indicated by facility records. We found that facility staff did not record certain kinds of transactions accurately in facility records while they did not record other kinds of transactions at all. For example, four of the facilities often did not adjust their records when they sent participation fees to the State Treasury.

We adjusted our reconciliations to account for the recordkeeping errors we found. But the records available at the facilities are so poor that we do not know whether we found all material errors made by the facilities. Thus, our reconciliations are based to some extent on account balances on which we place limited reliance. Our revised reconciliations resulted in a combined recorded cash shortage of \$105,022, as follows:

Facility	Recorded Shortage (Overage)
Bayview	\$ 22,817
Edgecombe	13,483
Fulton	16,414
Lincoln	57,485
Parkside	(5,178)
Total	\$105,022

The Department's Central Office should review these unresolved discrepancies to learn their causes. We also plan to refer the discrepancies to the State Inspector General for further investigation. In addition, as described in the following two sections of this report, we identified several other control weaknesses that may have contributed to these unresolved discrepancies.

Recommendations

1. Ensure that, each month, the facilities reconcile their records of inmates' cash to the cash in the bank.
2. Ensure that the facilities accurately record inmate account transactions.
3. Identify the reasons for the discrepancies between inmate account records and records of cash in the bank at the five facilities.

Control Weaknesses

The control environment, which includes the attitudes and behaviors exhibited and encouraged by top management in an organization, sets the tone for the organization. It is the foundation for all other components of internal control. We observed an attitude, openly expressed by officials in the Department's Central Office, that the staff at the facilities, rather than the Central Office, are ultimately responsible for managing facility cash operations. As a result, the Central Office does not closely monitor inmate account operations. For example, until we brought these matters to their attention, Central Office officials were not aware of the recorded cash shortages at the five facilities and were not aware that the facility staff did not do the monthly reconciliations as required. In fact, Department management has assigned only one Central Office staff to monitor inmate account operations at 70 facilities statewide. The Central Office management is ultimately responsible for inmate account operations and should therefore monitor these operations more closely.

Formal risk assessments are an integral part of a comprehensive internal control system. However, we found no evidence that Central Office managers have ever assessed the risks posed to inmate accounts by Work Release Program transactions. Consequently, the Department is less likely to establish procedures that can effectively guard against these risks. We found that, in reviewing inmate account operations, the Central Office was limited to reacting to problems identified by the facilities. Without a risk assessment, the Central Office cannot effectively establish priorities for carrying out systematic improvements. For example, Department managers told us that enhancements to the ICAS are considered a low priority. We question the determination of this priority, lacking a formal risk assessment.

If staff are to do their functions appropriately, they must follow the standard operating procedures developed by management. To ensure that these procedures are clearly communicated to staff, they should be documented in an operations manual. However, we found that Department management has not updated the manual for inmate account operations since 1970. As a result, there are no standard procedures for handling inmate account transactions relating to Work Release Programs. The Central Office required the facilities with Work Release Programs to write their own procedures for these transactions, but we found that only Edgecombe Correctional Facility has written such procedures.

Department officials told us that they are in the process of revising the inmate account procedures manual. Meanwhile, they told us, they have issued various directives to the facilities about inmate account operations. However, we found that the staff at the five facilities covered by our audit did not always understand these directives, as various facility staff interpreted the directives differently and, sometimes, staff were not aware that they were not in compliance with a directive. Some facility managers even requested our help in interpreting directives.

Following our reviews at the five facilities, Department managers began to distribute additional information to help the facilities interpret the directives. For example, Department officials advised us that memos advising the facilities on how to reconcile cash in the bank to book balances were sent to all five facilities. While we see this as a positive beginning, we believe further interaction between the Central Office and the facilities is essential if an effective system of internal controls is to be carried out.

If staff are to do their functions appropriately, they must be adequately trained. To determine whether staff involved in inmate account operations were adequately trained, we interviewed 18 employees in the inmate accounts units at four of the facilities covered by our audit. We found that only four of these employees had been formally trained in their duties. Two of the remaining 14 employees had not been trained at all, and the other 12 employees told us the staff member they replaced had trained them. We question the effectiveness of this on-the-job training, because we determined that these employees do not fully understand how to do such important duties as reconciling bank statements and sending fees to the State. A Central Office official told us that the Department does not have the resources to train facility staff, especially in view of the frequent turnover at the facilities.

We were told that the Central Office does provide help when contacted by facility staff with problems. We also note that the Central Office has established a task force to identify and correct problems in inmate account operations, and this task force has conducted workshops for facility staff.

However, the task force was not established to provide long-term training and does not have the resources to continue these workshops.

The lack of training and an absence of standardized procedures, contribute to an environment that has the potential for fraud and abuse. For example, in its investigation of theft at Wende Correctional Facility, the Department concluded that the theft was made easier because the staff was not knowledgeable in business office operations and did not understand the concept of internal controls.

If internal controls are to be adequate, the same employee should not both receive cash and maintain the records relating to that cash. Rather, these duties should be separated among different employees so that the work of one employee acts as a check on the work of another employee. When these duties are not adequately separated, an employee can misappropriate cash and adjust the records to conceal the misappropriation.

We examined the duties relating to inmate accounts at the five facilities covered by our audit and found that these duties are not adequately separated among different employees at the Edgecombe and Parkside Correctional Facilities. For example, the cashier at Edgecombe:

- ! receives inmates' cash,
- ! maintains the records relating to this cash,
- ! reconciles these records to the records of cash in the bank,
- ! prepares the bank deposit slips for the cash, and
- ! receives copies of duplicate deposit slips from the bank.

The management at Edgecombe believes duties are adequately separated, because another employee enters the cash receipt information into the ICAS. However, we note that the previous cashier was able to embezzle about \$1,000 in inmates' cash before being detected by facility managers. The cash handling duties at Edgecombe are not adequately separated.

The inmates' cash at each facility is maintained in various checking and savings accounts. For the checking accounts, the facility staff are required to reconcile the checkbook balances to the bank statements monthly. However, we found that none of the five facilities did the reconciliations monthly. At the time of our review, staff at Edgecombe and Lincoln had not performed this reconciliation for a month, staff at Parkside had not done this reconciliation for three months, staff at Fulton had not done reconciliations for June 1992 through October 1994, Bayview staff had not done reconciliations for November 1993 through March 1994. In addition, Lincoln and Fulton staff

did not do their reconciliations accurately, as Lincoln overstated the cash in the bank by about \$63,000 and Fulton understated the value of the outstanding checks in the inmate accounts. We further noted that Edgecombe often did not adjust its records when the payer's bank did not honor a check deposited by an inmate. As result of these weaknesses, the facilities were less able to accurately account for inmates' cash.

In responding to our draft report, Department officials noted that the Department is currently in the process of seeking proposals from banks in an effort to privatize various aspects of their inmate accounts operation. If such an action is in fact taken, the Department would still need to ensure that the individuals managing inmate accounts were adequately trained and closely monitored.

Recommendations

4. Closely monitor inmate account operations at the facilities.
5. Formally assess the risks posed to inmate account operations by Work Release Program transactions.
6. Update the procedures manual for inmate account operations.
7. Ensure that employees involved in inmate account operations are adequately trained in their duties and understand internal controls.
8. Ensure that the duties relating to inmate account operations are adequately separated among different employees.
9. Ensure that, each month, the facility staffs accurately reconcile inmate account checkbook balances to the related bank statements.

Unpaid Loans Made to Inmates

Inmates in Work Release Programs who do not have funds for program expenses, such as searching for a job, may be advanced funds by their facilities. These loans are to be repaid after the inmates gain employment. However, some inmates are paroled, escape from their facilities or are transferred to other facilities without repaying the loans. During the 13 months ended April 30, 1995, \$77,890 in unpaid loans were accumulated at

the five facilities covered by our audit. The State Treasury reimburses facilities for such unpaid loans.

We examined the procedures used by the five facilities covered by our audit to account for the loans made to inmates in Work Release Programs. We found that three of the facilities (Bayview, Fulton and Parkside) do not adequately account for loans that inmates do not repay. Parkside maintains no record summarizing the total unpaid amount; Fulton and Bayview did not begin maintaining such a record until January 1994, and thus have no record of the unpaid loans before that time. Moreover, we determined that the record maintained by Fulton since 1994 was not accurate. When we examined the record for 50 inmates who left Fulton with unpaid loans, we found that four of the inmates were not included in the record. We also determined that Edgcombe claimed reimbursement for unpaid loans made to 26 inmates (totaling \$650) that had already been reimbursed.

Facility staff must consider the unpaid loans when they reconcile inmate accounts to the records of the cash in the bank. If they do not accurately record the unpaid loans, they cannot reconcile the two sets of records. We also note that missing funds can be concealed if unpaid loans are not accurately recorded. For example, missing funds can be concealed by requesting reimbursement for unpaid loans that have already been reimbursed. We therefore believe that the inaccurate records of unpaid loans represent a significant internal control weakness.

In responding to our draft report, Department management indicated that they have submitted a budget request proposal to eliminate many of the inmates' negative account balances. This proposal includes:

- ! Establishing advance accounts (funded by revenues from inmates for room and board fees and day reporting administrative fees) at the work release facilities to handle the weekly advances to inmates who are on job searches;
- ! Limiting the dollar amount of advances and restricting the advances to the time allowed for job searches - six weeks; and
- ! Recoving funds advanced to inmates only while they are in the work release program; and standardizing room and board fees to a flat fee.

Department management also stated that the cost of the Work Release Program - including the accumulated unpaid loans - is more economical as compared to the cost of keeping these inmates in general confinement.

The facilities should make more of an effort to collect unpaid loans from inmates. It is inappropriate that taxpayer funds are used to cover the bad debts of inmates.

Recommendations

10. Ensure that facilities accurately account for unpaid loans to inmates.
11. Ensure that facilities make more of an effort to collect unpaid loans from all inmates.

Collection of Work Release Fees From Inmates

The participation fees and administration fees collected from inmates in Work Release Programs are to be sent to the State Treasury. We found that, during the 41 months ended May 31, 1995, the five facilities sent to the State Treasury about \$1.1 million in participation fees and less than \$600,000 in administration fees. We determined that facility staff collected some fees but they did not send them to the State Treasury. We also determined that some fees which should have been collected were not collected. In addition, we identified weaknesses in recordkeeping and other internal controls that make the fees collected more vulnerable to loss and theft.

Participation Fee

An inmate is required to pay his facility a weekly participation fee for his room and board at the facility while he participates in a Work Release Program. Facility staff are required to send these fees to the State Treasury biweekly. To determine whether the five facilities covered by our audit met this requirement, we examined the records at the facilities relating to the collection of this fee.

We first determined that, for the period January 1, 1992 through May 31, 1995, Bayview, Edgecombe, Fulton, Lincoln and Parkside Correctional Facilities had collected a total of \$1.8 million in participation fees. (We did not include the amount collected by Fulton Correctional Facility for January 1992 through March 1992, because Fulton's relevant records were not complete.) We then determined that the five facilities had sent \$1.6 million of this \$1.8 million, and had retained the remaining \$239,197, as follows:

Facility	Amount Collected	Amount Sent	Amount Retained
Bayview	\$ 247,845	\$ 164,360	\$ 83,485
Edgecombe	541,419	432,852	108,567
Fulton	508,194	508,194	-0-
Lincoln	408,863	398,654	10,209
Parkside	92,995	56,059	36,936
Total	\$1,799,316	\$1,560,119	\$239,197

We conclude that the four facilities are not timely in sending this fee to the State Treasury. We note that once our review began in March of 1995, the facilities increased their rate of remittance. For example, in April and May of 1995, Bayview processed most of its remittances for the period (\$131,420 of the total \$164,360 sent by the facility).

Because of this untimely remittance, the facility staff retained funds that they should have sent to the State Treasury. Moreover, by failing to send these funds, the facilities increase the risk that funds could be misappropriated without detection.

Officials at Bayview, Edgecombe, Lincoln and Parkside Correctional Facilities told us they were not always timely in sending the participation fee for the following reasons:

- ! They were often short of staff or experienced staff turnover in the inmate accounts units. The Parkside head accounts clerk told us that as a result he had no time to determine the amount of fees collected.
- ! Officials at Lincoln and Bayview were unaware that staff had not sent fees.
- ! The head accounts clerk at Parkside told us that he did not send fees promptly in case he needed funds to cover shortages in inmate accounts. He said unpaid loans to inmates caused such shortages in Work Release Programs.

! The Deputy Superintendent for Administration at Edgecombe told us that some staff in the inmate accounts unit did not have the appropriate bookkeeping skills. For example, the previous cashier did not know how to reconcile accounts. We note that the staff at Edgecombe at the time of our review did not know that they should send participation fees to the State Treasury; they instead deposited the fees into another account at the facility.

We believe our earlier recommendations to closely monitor inmate account operations would address some of the reasons for the untimely remittances, account for and collect unpaid loans to inmates, and provide appropriate training to staff.

In responding to our draft audit report, Department officials indicated that part of their budget request initiative is to standardize the participation fee to a flat fee of \$20 per week, to replace the current sliding fee scale. They believe that this will help automate the collection process and thus further reduce the workload in Inmate Accounts.

Recommendations

12. Ensure that facility staff sends participation fees to the State Treasury biweekly.
13. Ensure that Fulton Correctional Facility maintains complete records relating to participation fees.

Administration Fee

According to Department policy, Work Release inmates who live in the community and report periodically to a facility (such inmates are called day reporters) are required to pay their facilities a weekly administration fee. The facilities are required by law to send these fees to the State Treasury biweekly. Four of the five facilities administer day reporting programs covered by our audit (all except Bayview).

To determine whether these four facilities sent their administration fees to the State Treasury as required for the period January 1, 1992 through May 31, 1995, we first tried to determine the amount of administration fees that the four facilities should have collected during this period. However, we could not determine this amount, because the inmate account records at the facilities do not show which inmates should pay the fee or how much is owed in past

due fees. We also note that the four facilities do not always comply with the Department's policy that they require that all day reporting inmates pay the administration fee. When the Department established the day reporting program, they expected that all participating inmates would have full-time jobs. However, some day reporting inmates have part-time jobs, some are unemployed, and some receive training in job skills. The four facilities do not necessarily require such day reporting inmates to pay the administration fee. We believe either the facilities should comply with Department policy or the Department should change its policy to conform with facility practices.

To estimate the amount of administration fees that should have been collected by the four facilities during the period, we reviewed inmate population counts provided by the security units at the facilities, interviewed Department and facility representatives, and interpreted Department policies and guidelines (we assumed that *all* day reporting inmates, except those in a certain residential treatment program, should have paid the administration fee). Department officials disagree with our methodology for determining the amount of fees that should have been collected. They believe that the amount of fees that should have been collected and remitted cannot be accurately computed because they do not have an automated system in place to readily identify an inmate as a day reporter, track his status through the program or create a receivable system for fee collection. They further believe that our use of estimates resulted in an inflated figure, but they did not give us an alternative methodology or an alternative amount. We believe our estimate accurately reflects the amount of fees that the four facilities should have collected.

We estimate that, for the period January 1, 1992 through May 31, 1995, Edgecombe, Fulton, Lincoln and Parkside Correctional Facilities should have collected and sent a total of \$1.7 million in administration fees. However, according to records at the four facilities, the facilities had sent only \$585,139 of this amount, leaving the remaining \$1,084,731 either uncollected or unsent, as follows:

Facility	Estimated Amount That Should Have Been Collected and Sent	Actual Amount Sent	Estimated Amount Uncollected or Unsent
Edgecombe	\$ 456,350	\$156,736	\$ 299,614
Fulton	497,960	292,441	205,519
Lincoln	423,420	121,500	301,920
Parkside	292,140	14,462	277,678
Total	\$1,669,870	\$585,139	\$1,084,731

We conclude that significant improvements are needed in the facilities' procedures for collecting and sending administration fees. The specific weaknesses we identified in our reviews at the facilities related to fee collection practices, as illustrated by the following examples:

- ! Department procedures require that correction officers at the processing posts collect these fees. However, as admitted by Department officials, these officers do not know which day reporters owe the fee or how much they owe.
- ! Officials at Parkside Correctional Facility told us that they stopped collecting the administration fee in August 1992, because they did not have enough staff to do all the tasks related to fee collection.
- ! Officials at the facilities told us they did not collect administration fees for six to nine months in 1993, because they misinterpreted a memo from the Department's Central Office.
- ! Edgecombe Correctional Facility officials told us they were not aware that certain day reporting inmates routinely did not pay the administration fee. We noted there were no transactions and zero balances in the accounts of these inmates.
- ! According to a memorandum of agreement signed by inmates when they enter a Work Release Program, a facility can require day reporting inmates to hand over their paychecks when they owe the facility money (such as the weekly administration fee). However, none of the facilities we reviewed require such inmates to hand over their paychecks.
- ! Facilities can encumber the account of an inmate who does not pay the administration fee so that facility staff deducts the amount owed for the fee from any future deposits made by the inmate. However, the Department's Central Office instructed the facilities to stop encumbering accounts in this way, because too many encumbrances were accumulating on the ICAS.

Because of these weaknesses in collection practices, the facilities did not collect funds that they should have sent to the State Treasury.

In addition, at Fulton Correctional Facility, we identified other internal control weaknesses regarding the collection and remittance of these fees. At this facility, the weekly administration fee was collected from day reporting inmates by the counselors who met with the inmates, rather than by correction officers as required by Department procedures. The counselors did not issue

receipts to the inmates and did not forward the fees to the inmate accounts unit daily. In the desks of five counselors we found 21 money orders that had been in the desks for as long as one week. These money orders totaled \$260 and, contrary to Department procedures, the inmates endorsed some of the money orders. Because of these internal control weaknesses, an unauthorized person could cash such money orders and the facility would have no record that the payments were ever made. When we informed facility officials of this situation, they returned fee collecting responsibilities to the correction officers.

Recommendations

14. Ensure that ICAS records show which inmates are required to pay administration fees and how much each owes.
15. Either ensure that the facilities comply with the policy requiring all day reporting inmates to pay the administration fee or modify that policy.
16. Ensure that the administration fee is collected from all inmates who are required to pay the fee.

Inmate Commissary and Accounting System

We found that facility management does not control access to the ICAS. As a result, unauthorized transactions are less likely to be prevented or detected. We also found that the ICAS could be improved to operate more effectively.

Control Weaknesses

Related duties should be separated among different employees so that the work of one employee acts as a check on the work of another employee. In an automated system such as the ICAS, related duties can be separated by restricting the access of employees to certain system functions. For example, an employee with access to the system function that makes adjustments to disbursement records should not also have access to the function that initially records the disbursements. However, the inmate account clerks at the five facilities covered by our audit have access to many related ICAS functions. They can initially enter receipts and disbursements, make adjustments to receipts and disbursements, and delete transactions. These clerks also verify the authenticity and accuracy of ICAS transactions, and reconcile the general ledger to the records of the cash in the bank. Because these duties are not adequately separated among different employees, an employee could initiate unauthorized transactions without detection.

To help prevent unauthorized transactions on an automated system such as the ICAS, management should require that employees enter a password to gain access to the system. To enhance security, management should require that employees change their passwords periodically. Facility employees are required to enter a password to gain access to the ICAS, and they must change their passwords every 30 days. However, an employee may repeat a password after 30 days. One clerk told us she alternates the same two passwords every other month. To enhance security, management should require a longer interval before employees can repeat their passwords.

Gaining unauthorized access to an automated system is possible by using an unattended terminal or by guessing at an authorized password. Therefore, to enhance system security, management should program the system to shut down a terminal after it has been left unattended for a certain period of time, or after someone has attempted a certain number of unauthorized passwords. However, management does not know whether they included these security features in the ICAS.

If the security of an automated system is to be adequate, a unique ID should identify each authorized user and each transaction should be able to be attributed to a specific authorized user. However, the ICAS does not record

the user ID when transactions are entered. As a result, management cannot attribute transactions to specific individuals.

To enable unauthorized transactions to be detected, an automated system should count the number of authorized transactions processed each day. Management can then compare this control number with the total number of transactions processed that day. However, the ICAS does not include this control feature.

Recommendations

17. Restrict employee access to the ICAS so that related duties are adequately separated among different employees.

(Although Department officials did not disagree with this recommendation, they noted that the staffing levels in the Inmate Account Offices at the facilities do not always allow for full separation of duties. In these cases they will increase their monitoring activities.)

18. Improve ICAS security by addressing the weaknesses we identified in employee passwords, unattended terminals, user IDs and transaction control numbers.

System Improvements

The ICAS was developed in 1970 to make certain payments to inmates, to purchase items from the commissary, to purchase items from outside vendors, and to record inmates' personal funds. The ICAS was never designed, nor properly modified, to deal with the fiscal requirements of Work Release Programs. Recognizing this deficiency, the Department formed a task force to recommend enhancements to the system. While some enhancements were implemented, others were not, including the following:

- ! To facilitate the collection of administration fees, the task force recommended that day reporting inmates be identified on the ICAS.
- ! To facilitate collection of administration fees, the task force recommended that an accounts receivable for these fees be established on the ICAS.
- ! To eliminate the need for facilities to physically transfer inmates' funds among themselves when inmates are transferred and to eliminate the need for each facility to reconcile its inmate accounts to

bank statements, the task force recommended that a single, centralized inmates' account be established. We note that such an account would greatly facilitate Central Office monitoring.

- ! To strengthen controls over and improve the efficiency of disbursements from inmate accounts, the task force recommended that an automatic check-writing function be integrated into the ICAS. Four of the five facilities covered by our audit use a commercial check-writing software package on stand-alone personal computers to prepare checks from inmate accounts; the fifth facility prepares checks manually. At all five facilities, facility staff must record a separate adjustment in the ICAS to reduce the balance in an inmate's account. If management integrated the check-writing function into the ICAS, the balance would be reduced automatically. We also note that, with an integrated check-writing function, better protection would be provided against unauthorized disbursements.

Had these recommendations been implemented, management could have prevented some of the problems noted during our audit.

While the enhancements recommended by the task force might resolve some immediate problems in the ICAS, we recognize that long-term solutions are needed and believe the introduction of advanced computer technologies might provide the solutions. For example, such technologies could be used to create the single, centralized inmates' account recommended by the task force. Such technologies could also be used to develop an automatic check-writing function, as was also recommended by the task force. We note that certain newly developed laser printers are particularly suited to the production of checks. In considering which technologies would be most appropriate for improving operations, we suggest the Department make use of business process re-engineering, which is a widely used approach for redesigning operations to increase their efficiency and effectiveness.

Recommendations

19. Review the ICAS to determine the feasibility of either implementing the enhancements recommended by the task force or updating the ICAS to a new system.
20. Consider using new computer technologies to improve the management of inmate accounts.

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