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March 31, 1998

Mr. Glenn S. Goord  
Commissioner  
Department of Correctional Services  
State Office Campus - Building #2  
Albany, NY 12226-2050

Re: Report 97-F-46

Dear Mr. Goord:

According 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 reviewed the actions taken by the Department of Correctional Services (Department) officials as of February 23, 1998, to implement the recommendations in our prior audit report 95-S-90. The prior report issued on October 9, 1996, examined the Department's purchasing and inventory practices.

**Background**

As of February 1, 1998, the Department of Correctional Services (Department) housed more than 69,300 inmates at its 69 facilities. The Department purchases goods and services from State-contracted and commercial vendors, and expended more than \$300 million for such purchases during the 1996-97 fiscal year.

Department officials in the Central Office are responsible for supervising, managing and controlling State correctional facilities. Accordingly, these officials, in conjunction, with management at each facility, are responsible for ensuring that facility purchases are necessary and bona fide and that inventories are adequately controlled. To achieve these objectives, Department managers must establish a comprehensive system of internal controls over facility purchasing and inventory operations. The Office of the State Comptroller (OSC) and the Office of General Services (OGS) have established guidelines for all State agencies that set forth general purchasing controls (including requirements regarding documentation, discretionary purchases and the solicitation of bids and quotes) and effective inventory management practices. Facility superintendents and other facility managers are required to ensure compliance with these guidelines, and with relevant Department Directives.

During this follow-up review we made site visits to Bedford Hills Correctional Facility (Bedford Hills) and Queensboro Correctional Facility (Queensboro) to evaluate inventory controls. In addition, to review purchasing controls we obtained data from the Department's Fiscal Management System for Auburn Correctional Industries (Auburn Industries), Auburn Correctional Facility (Auburn) and Queensboro.

### **Summary Conclusions**

In our prior audit, Department management had not established effective internal controls over facilities' purchasing and inventory functions or ensured that facility managers had implemented and complied with the guidance provided to establish and maintain necessary controls. We found that inadequate controls resulted in uneconomical purchases, potentially wasteful inventory practices, and increased potential for fraud, waste and abuse.

In our follow-up review, we found the Department has implemented some procedures to improve internal controls; however, further improvements are needed. We still identified instances of noncompliance with purchasing procedures, resulting in potentially uneconomical purchases and poor inventory practices at those facilities we visited.

### **Summary of Status of Implementation**

We found that Department officials have partially implemented each of our three prior audit recommendations.

### **Follow-up Observations**

#### **Recommendation 1**

*Strengthen internal controls by ensuring that Department managers:*

- take an active role in establishing, evaluating and monitoring facility purchasing controls;*
- assess and identify risk, determine what corrective action is needed and when it will be implemented;*
- communicate control information so that facility managers and staff correctly understand, interpret and implement purchasing control requirements; and*
- monitor the effectiveness of facilities' purchasing controls on an ongoing basis.*

## **Status - Partially Implemented**

**Agency Action** - Department officials have taken some steps to improve internal controls over purchasing such as improvements in the Department's Financial Management System (FMS). Some of these improvements are as follows:

- \* Officials indicated that Department staff access to FMS was reviewed and changes were made as appropriate. This review was done to reduce the number of individuals who had access to all purchasing functions and to ensure they did not assign individuals conflicting responsibilities. This would allow for a proper segregation of duties among staff. A review of FMS access at Queensboro and Bedford Hills and a review of records supplied for a sample of other facilities indicated that they have made improvements since our prior audit.

- \* The system has been enhanced to prevent individuals from being granted access to conflicting responsibilities unless such access is limited in duration.

- \* Department staff have directed security administrators to review FMS access monthly and to make changes as needed. This includes removing individuals who leave Department service from the system.

- \* Officials indicated that a Central office review of FMS access was to be done on a biannual basis. Officials indicated that this had been done but could not provide documentation of these reviews. But as noted above, there has been a noticeable difference in system access (has been limited) since our prior audit.

- \* The system allows staff on-line information as they complete purchase orders showing the cumulative expenses by vendor and commodity. In addition, a daily report is available with discretionary purchasing activity for the past 60 days. The report can be varied to supply information on up to nine agencies combined, the dates can be changed to obtain the information over a specified period and the dollar limits can be changed.

Furthermore, Department officials indicated they sent all facilities a listing of the procurement memos and/or purchasing guidelines they should have on file. In addition, since our last audit, they have reissued the Department directive on Purchasing Supplies and Equipment and copies of the New York State Procurement Council Final Guidelines were sent to all facilities. We found that copies of these guidelines were on hand at both facilities we visited during this follow-up review.

The Department has established teams in each of its Hubs to do fiscal audits of facilities. They indicated these fiscal audits are done for American Correctional Association certification requirements. Since our prior audit, they have conducted audits at 25 of the Department's 69 facilities. Bedford Hills is the only facility, in our prior audit, that had a fiscal audit since our prior audit. Department officials did not find any of the problems noted in our prior audit

during their audit. However, they did cite Bedford Hills for not conducting an annual inventory of equipment, but indicated that the facility inventories all equipment quarterly.

When completed, copies of these fiscal audits are sent to the Department's Budget & Finance Unit for review. Facility management must send correspondence to this unit indicating what actions they have taken to address the deficiencies cited. However, Department staff does not follow-up to determine if corrective action has been taken.

**Auditors' Comments** - As indicated in our prior audit, the Department's purchasing function is completely decentralized and Department management does little to ensure that facilities are following the required purchasing guidelines and that facilities' expenditures are necessary and bona fide. Since our prior audit, they have made some improvements to the FMS that improved internal controls over purchasing. However, as previously reported, the Department is not using FMS to the extent it should. For example, by monitoring facility purchases through FMS, Department managers could compare the costs of similar commodities purchased at the various facilities to identify potential savings opportunities. Department management could also monitor split order purchases.

In addition, Department managers have not done a formal risk assessment addressing facility purchasing. Department officials indicated that this is not necessary as each facility must receive a fiscal audit to be accredited. However, as indicated in our prior audit, we do not feel the scope of these fiscal audits is sufficient to identify purchasing risks.

### **Recommendation 2**

*Ensure that all Department operations:*

- *avoid split ordering practices;*
- *comply with relevant purchasing guidelines; and*
- *establish perpetual inventory systems and reorder points, conduct periodic physical inventories and investigate and resolve inventory discrepancies timely.*

### **Status - Partially Implemented**

**Agency Action** - As indicated above, Department officials have made improvements to the FMS by limiting access at each facility to provide for proper segregation of duties. The system can generate a report of the total dollars to a specific vendor and obligated against a certain commodity for that facility within the past 60 days. However, there is no central office review of this report.

During our follow-up review, we obtained data from the Department's FMS to determine if facilities had split ordered and to determine if purchases were made according to purchasing

guidelines. During our prior audit, we found split ordering had occurred at Auburn, Auburn Industries and Queensboro. In addition, purchasing guidelines were not followed at Auburn, Auburn Industries, Bedford Hills and Queensboro. In reviewing the selected purchase orders, we did not find any evidence of split ordering at either Auburn or Queensboro. We did identify split ordering by Auburn Industries staff as follows:

- \* More than \$6,500 of plywood was purchased from two different vendors within a period of two weeks. In addition, for the second purchase (\$4,858.75) there was no evidence that they solicited competition.
- \* During two different two-week periods, the facility purchased more than \$5,000 of lint free clothes without soliciting competition. These purchases were not advertised in the Contract Reporter, as required. In addition, we found that between April 1997 and December 1997, the facility made aggregate purchases of clothes from this vendor in excess of \$17,000. The facility expended more than \$30,000 in the prior fiscal year, for clothes from this vendor. The facility has not sought competition for the purchase of this commodity nor advertised in the Contract Reporter as required.
- \* The facility obtained more than \$5,600 in screws during a three week period from a single vendor without soliciting competition as required.
- \* The facility purchased more than \$5,900 in stain, within a three week period from a single vendor without soliciting competition. The facility had aggregate purchases of more than \$30,000 in the prior fiscal year from this vendor and more than \$11,000 from April 1997 through November 1997.
- \* We also identified other purchases where they did not solicit quotes as required.

We reviewed inventory procedures over food and equipment at Queensboro and clothing and equipment at Bedford Hills and found the following:

- \* Queensboro has established computerized perpetual inventory systems for the following: Food, Household Supplies, Office Supplies and Clothing. Department guidelines indicate that they should take physical inventories at least monthly. During our follow-up review, we found facility officials had not been conducting physical inventories according to Department guidelines.
- \* Queensboro officials could not provide documentation indicating that they compared physical inventories with perpetual inventory records and that variances were reported to and investigated by appropriate staff for all inventories taken.

\* Queensboro officials are in the process of developing computerized inventory records for equipment. A complete physical inventory of equipment has not yet been completed.

At Bedford Hills we found that inventory controls over clothing and equipment have not improved since our prior audit. We found a number of problems that indicate inventory controls need to be improved:

- We identified 39 clothing items in which the physical count did not reconcile to the count indicated in the perpetual inventory record, and they did not note these variances in the monthly reconciliation. Bedford Hills officials could not provide an explanation for these discrepancies.

- The corrected inventory report was dated December 1, the variance report was dated December 4 and was signed by the Steward on December 15. They should not have made the inventory adjustments until these were approved by the Steward. In addition, there is no indication, they gave the Steward a report of all items with variances that would allow the Steward to verify that they properly made all adjustments. Also, the documentation provided did not appear to indicate that they conducted an adequate investigation of variances.

- A copy of the monthly variances for the state shop inventory indicated variances were found for 107 items. A review of the prior month's inventory also indicated there were variances found for many of the items. The large number of items for which variances were noted in each month indicates that inventory procedures are in need of improvement.

- Six clothing items were selected to determine if the perpetual inventory records could be reconciled to a physical count. Variances existed for two of the six items tested as follows:

<u>Item #</u>	<u>Item</u>	<u>Count</u> <u>Per Records</u>	<u>Physical</u> <u>Count</u>	<u>Variance</u>
0250	Pants, Green, Lg	1086	1026	(60)
2945	Blouses, XL	85	94	9

- Because of problems noted in our review of the inventory records, we also rechecked the inventory of shoes. The last physical count indicated that there were no shoes in the inventory but the perpetual inventory records indicated there were shoes in stock. The following summary shows the variances between the inventory records and our physical counts:

Count                      Physical

<u>Item #</u>	<u>Item</u>	<u>Per Records</u>	<u>Count</u>	<u>Variance</u>
0010	Shoes, Size 5	139	130	(9)
0020	Shoes, Size 5.5	92	100	8
1290	Shoes, Size 6	2	2	-

- Officials indicated that an annual physical inventory of equipment is conducted by taking monthly physical inventories of various areas over the year. The facility has assigned equipment custodians for designated areas in the facility. A review of the physical inventories taken indicates that there are a number of areas that they have not inventoried. Some areas were only inventoried once (sometime in 1995) and have not been done since. In addition, they have inventoried only a few areas in 1997. This information does not appear to support the findings of Department staff in their fiscal audit conducted in October 1997. The report indicated that inventories were conducted quarterly.

At our closing conference, Department officials indicated that Bedford Hills staff will begin performing annual physical inventories of equipment and comparing the results to perpetual inventory records. They also indicated that spot checks of equipment inventories will be made during the year by the internal controls committee. Bedford Hills officials also indicated that they would begin random searches of both inmates and staff assigned to the State shop to try and identify the cause of inventory shortages.

**Auditors' Comments** - Department officials should use the reports available from the Department's FMS to monitor facility purchases and instances of split ordering, especially for Auburn Industries. Department officials should also ensure that they establish proper inventory controls at all facilities and that inventory procedures comply with Department directives. Department officials need to consider providing training to facility staff regarding inventory control procedures.

### **Recommendation 3**

*Investigate and resolve the instances of split ordering, noncompliance with purchasing guidelines and inventory discrepancies at the operations we visited during this audit and recover overpayments made, where feasible.*

### **Status - Partially Implemented**

**Agency Action** - In the Department's 90-day response to our prior audit, Department officials indicated that the inventory problems noted at Bedford Hills had been corrected. They also indicated that problems noted at Queensboro regarding inventories and purchasing practices had also been corrected. Department officials further stated that they had investigated and corrected the instances of split ordering and noncompliance with purchasing guidelines at

Auburn. At Auburn Industries, Department officials indicated that purchase orders were no longer being split and they were making purchases according to purchasing guidelines.

**Auditors' Comments** - At Bedford Hills controls over inventories of clothing and equipment have not improved since the last audit. Department officials should work with Bedford Hills staff to improve inventory controls over clothing and equipment.

At Queensboro inventory controls for supplies and food have improved. The facility now maintains perpetual inventory records for both. Finance office staff conducts periodic physical inventories. Queensboro has yet to complete a physical inventory of equipment and is in the process of establishing computerized inventory records for equipment. Staff access to FMS has been limited since the time of our prior audit.

Controls over purchasing at Auburn have improved since our prior audit. We did not identify any instances of split ordering and all sampled purchases reviewed were made according to purchasing guidelines.

At Auburn Industries the purchasing problems noted in our prior audit are still occurring. We identified instances of split ordering, purchases being made without soliciting competition and purchases for which advertisements and bids should have been solicited. Department officials responsible for oversight of Auburn Industries purchasing should make use of the Department's FMS to monitor facility purchases. Department officials should work with Auburn Industries staff to ensure they improve purchasing practices.

Contributors to this report were William Challice, Frank Russo, Aaron Fruchter, Greg Petschke and Tom Kulzer.

We would appreciate your response to this report within 30 days, indicating any action planned or taken to address any unresolved matters discussed in this report. We also thank the management and staff of the Department for the courtesies and cooperation extended to our auditors during this review.

Yours truly,



Carmen Maldonado  
Audit Director

cc: R. L. King, DOB  
D. Felter, DOCS