



DEPARTMENT OF CORRECTIONS
Inmate Accounting

Limited Review of the Internal Control
For the Period January 2006 through December 2006

Report No. 07-COR-A

*Keeping Utah
Financially Strong*

AUSTON G. JOHNSON, CPA
UTAH STATE AUDITOR



Auston G. Johnson, CPA
UTAH STATE AUDITOR

STATE OF UTAH
Office of the State Auditor

UTAH STATE CAPITOL COMPLEX
EAST OFFICE BUILDING, SUITE E310
P.O. BOX 142310
SALT LAKE CITY, UTAH 84114-2310
(801) 538-1025
FAX (801) 538-1383

DEPUTY STATE AUDITOR:
Joe Christensen, CPA

AUDIT DIRECTORS:
H. Dean Eborn, CPA
Deborah A. Empey, CPA
Stan Godfrey, CPA
Jon T. Johnson, CPA

REPORT NO. 07-COR-A

April 2, 2007

Tom Patterson, Executive Director
Department of Corrections
14717 South Minuteman Drive
Draper, Utah 84020

Dear Mr. Patterson:

We have performed the procedures described below to certain aspects of the internal control at the Department of Corrections, Division of Institutional Operations' Inmate Accounting function ("Inmate Accounting") for the period January through December 2006. The purpose of these procedures is to assist Inmate Accounting in evaluating its internal control. The procedures performed were as follows:

1. We reviewed the cash receipting, cash disbursing, recording, and reconciliation duties for adequacy of separation of duties for internal control purposes.
2. We reviewed internal control over cash receipting procedures. We also tested a sample of cash receipt transactions.
3. We reviewed internal control over Inmate Accounting's bank account, specifically procedures concerning bank reconciliations.
4. We reviewed internal control over cash disbursing procedures. We also tested a sample of cash disbursements for propriety, reasonableness, and compliance with certain internal policies and State law. We also reviewed the check register for propriety and completeness.
5. We reviewed a sample of inmate grievances specifically related to Inmate Accounting complaints to ensure the grievances were handled and resolved properly.

Our procedures were more limited than would be necessary to express an audit opinion on compliance or on the effectiveness of Inmate Accounting's internal control or any part thereof. Accordingly, we do not express such opinions. Alternatively, we have identified the procedures we performed and the findings resulting from those procedures. Had we performed additional procedures or had we made an audit of the effectiveness of Inmate Accounting's internal control, other matters might have come to our attention that would have been reported to you.

Our findings resulting from the above procedures are included in the attached findings and recommendations section of this report. We feel that Findings 1 through 5 are significant weaknesses to Inmate Accounting. If these weaknesses are left uncorrected, an unacceptable amount of errors or misappropriations could occur without detection.

This report is intended solely for the information and use of Inmate Accounting and is not intended to be and should not be used by anyone other than this specified party. However, the report is a matter of public record and its distribution is not limited.

By its nature, this report focuses on exceptions, weaknesses, and problems. This focus should not be understood to mean there are not also various strengths and accomplishments. We appreciate the courtesy and assistance extended to us by the personnel of Inmate Accounting during the course of the engagement, and we look forward to a continuing professional relationship. If you have any questions, please call Debbie Empey, Audit Director, at 538-1342.

Sincerely,

Auston G. Johnson, CPA
Utah State Auditor

cc: Gary Sessions, Finance Director, Dept. of Corrections
Brian Allgaier, Finance Manager, Dept. of Corrections
Robb Strong, Inmate Accounting Manager

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1. **INADEQUATE SEPARATION OF DUTIES** (Significant Weakness)

The Accountant has access to cash and the Offender Trust Accounting System, reconciles receipt records to the cash receipt batch report, prepares billings for gate receipts, reviews expected gate receipts, handles signed checks, and performs the bank reconciliation. Inadequate separation of duties exists when the same individual has custody of assets, access to the accounting records, and reconciling responsibilities. Inadequate separation of duties could allow errors and fraud to occur without detection. Duties could be adequately separated by not allowing the Accountant to have access to cash/checks, assigning someone else to review gate receipts, and assigning someone else to handle the signed checks.

Recommendation:

We recommend that Inmate Accounting separate conflicting duties.

Corrections' Response:

We concur with this finding.

As of February 1, 2007 the Inmate Accounting staff have physically moved and there has been a major shift in supervisory roles within inmate accounting. This has provided the Department with the opportunity to reassign certain duties in the Inmate Accounting Unit. The functions of each staff member have been evaluated and the critical functions of receipting, disbursements, and reconciliation have been assigned to specific staff to ensure that the proper checks and balances are now in place. The Accountant identified in this finding will no longer be involved in the creation of the daily deposit, and the Accountant will also no longer have access to the actual cash/checks. The reconciliation for the daily deposit will be from a control document rather than from the actual deposit items. Gate money will be reviewed and documented by a financial manager, and an Accounting Technician will handle the signed checks.

2. **CASH RECEIPTING CONTROL WEAKNESSES** (Significant Weakness)

Inmate Accounting has not established effective controls over cash/checks received. We noted the following cash receipting weaknesses for Inmate Accounting:

- a. The mail log and drop box log, which record checks sent to inmates, do not contain sufficient information. The mail log lists the sender's name but not the receiving inmate's name or the dollar amount. The drop box log lists the total number of envelopes received and the dollar amount in total, but not the individual receipts and individual dollar amount. As a result, a detailed reconciliation of the mail log and drop box log to the amount that is entered in the system (cash receipt batch report) is not

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possible. A detailed reconciliation of original receipt records to the cash receipt batch report should be performed to ensure all cash/checks received are recorded and deposited.

Of 25 sample receipts tested, we noted one receipt for which the deposit was incomplete. The mail and drop box logs showed that 83 items should have been deposited; however, only 82 items were deposited. As a result, the deposit contained one less receipt than what was originally noted as being received. Occasionally, checks sent to inmates are rejected due to errors on the checks, such as the inmate's name missing from a check or a check not being signed. In this case, the missing check may have been rejected due to an error. However, we cannot determine with certainty if this was the case because of insufficient information on the mail log, as noted above. Inmate accounting should document all rejected checks so that an accurate reconciliation of receipt records to the cash receipt batch report can be performed.

- b. The Accountant reconciles receipt records to the cash receipt batch report, which shows what was entered in the Offender Trust Accounting System. However, instead of reconciling original receipt records (mail log, drop box log, and pre-numbered receipt forms) to the cash receipt batch report amount, the Accountant is given the actual checks to use as part of the reconciliation. This is done because the mail log and drop box log do not contain sufficient information to perform the reconciliation based on the logs alone, as indicated in a. above. However, the Accountant should not have access to cash/checks received (see finding number 1). The mail log and drop box log should be improved so that the Accountant can perform the reconciliation from the logs without having the actual checks.
- c. Inmate Accounting does not account for the numerical sequence of pre-numbered receipt forms. Cash and checks are received through the three prisoner intake areas and over the counter. The intake areas issue a pre-numbered receipt form and then forward the cash/checks and top copy of the receipt form to Inmate Accounting. Inmate Accounting should account for the numerical sequence of these receipt forms to ensure the receipts are complete. We noted that the account technicians do sometimes document that a receipt number is missing, but they do not investigate the circumstances behind the missing receipt. In addition, we noted that a block of 500 over-the-counter receipt forms was missing. Since missing receipts are not accounted for, we were unable to determine if there was money received but not deposited.
- d. Inmate Accounting has shredded all pre-numbered cash receipt forms from the three prisoner intake areas for January through December 2006. As a result, based on Inmate Accounting's records, we were unable to determine whether all the receipts were accounted for. In addition, this violates the Department of Corrections Record

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Retention Schedule, which states that cash receipt source documents should be retained for at least three years.

- e. The prisoner intake areas do not handle pre-numbered receipt forms properly. Because Inmate Accounting shredded their copy of the receipt forms, we obtained the carbon copy of the receipt forms from the three prisoner intake areas and noted the following:
 - 1) The Timpanogos intake area shreds their copy of the cash receipt forms after 1-2 months. Therefore, we were unable to review all Timpanogos receipt forms for the year.
 - 2) The Uintah intake area had 11 missing receipt forms during calendar year 2006. As a result, we were unable to determine propriety of these 11 cash receipts.
 - 3) The Wasatch intake area did not retain their copy of the receipt forms for the period January through May 2006. The receipt numbers show that the receipt forms were not in numerical order and were apparently taken from various different receipt form books.
 - 4) None of the three intake areas forward the top copy of the voided receipt form to Inmate Accounting so that Inmate Accounting can verify that the receipt was properly voided and account for the numerical sequence of the receipt forms.

Lack of proper cash receipting controls as noted above can allow errors, misappropriations, or fraud to occur without detection.

Recommendation:

We recommend that Inmate Accounting:

- a. Improve the mail log and drop box log to include detailed information, such as the receiving inmate's name and dollar amount, document all rejected checks, and reconcile receipt records to the cash receipt batch report.**
- b. Restrict the Accountant's access to the actual checks and include detailed information on the mail log and drop box log, as recommended above. Then the Accountant can use the logs and pre-numbered receipt forms to perform the reconciliation of receipt records to the cash receipt batch report without having access to the cash/checks (see finding number 1).**
- c. Assign someone to account for the numerical sequence of all pre-numbered receipt forms and investigate any missing receipt forms.**

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- d. Retain all pre-numbered receipt forms for at least three years, in compliance with the Department of Corrections Record Retention policy.**
- e. Require the prisoner intake areas to issue the pre-numbered receipt forms in consecutive order and forward the top copy of voided receipt forms to Inmate Accounting so they can account for the numerical sequence.**

Corrections' Response:

We concur with this finding.

- a. As of April 1, 2007 there will be significant changes to the mail log. This will include changes to the mail received through the US Postal Service as well as "mail" received through the drop box. Each envelope will be opened and recorded. The log will include the date, the sender, the recipient, and the dollar amount of each check or money order. Any variance to the mail log (for example: bad checks) will be noted at the time of receipt into the inmate accounting system and added as an attachment to the mail log.*
- b. The daily mail log and the daily receipt records will be used to reconcile the daily bank deposits.*
- c. As of April 1, 2007 the Finance Bureau will conduct a monthly reconciliation with each of the inmate intake areas to verify the proper use of their receipt books. The monthly reconciliation will also address any variances in the documents and any missing receipt forms.*
- d. The Inmate Accounting Unit will follow the current Department record retention policy, and staff training will be provided during our March 2007 staff meetings.*
- e. As of April 1, 2007, each of the inmate intake areas will receive proper training on the use of the pre-numbered receipt books and the process needed to transfer the information to the Inmate Accounting office.*

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3. **MISSING CHECKS AND LACK OF CONTROLS OVER CHECK STOCK**
(Significant Weakness)

We reviewed Inmate Accounting's check register for the period January through December 2006 and noted the following:

- a. Many check numbers were missing from the check register. Inmate Accounting personnel indicate that this is due to some pre-numbered check stock being fed into the printer incorrectly, or the printer not being aligned properly. The check stock then becomes unusable and is destroyed. However, there is no documentation to show the disposition of missing checks.
- b. Inmate Accounting loaned a block of 100 checks to the Fremont Community Correctional Center (CCC) when Fremont ran out of checks. Fremont used 78 of the 100 checks; however, the remaining 22 blank checks were not returned to Inmate Accounting. The loan of check stock was also not documented by Inmate Accounting.
- c. Check stock was issued out of sequence. We noted that check numbers 712532 - 712592 were issued on various dates during November 2006. However, check numbers 712593 - 712702 were issued previous to that on October 30, 2006. We noted three other instances where checks were issued out of sequence. No one is accounting for and documenting checks issued.

A log which documents checks that must be destroyed as a result of problems with the printer, any checks loaned to another entity, and the check number range used for each check run should be implemented to retain accountability over the pre-numbered check stock. The log should be reviewed and approved by a supervisor to ensure all check stock is used in sequence and is accounted for. In addition, check stock that is loaned to another entity should include a stipulation that any unused checks be returned. Not controlling and accounting for all pre-numbered check stock can allow errors or misappropriations to occur.

Recommendation:

We recommend that Inmate Accounting implement a log as described above and ensure the log is reviewed and approved by a supervisor. In addition, whenever check stock is loaned to another entity, we recommend that Inmate Accounting include a stipulation that any unused checks be returned.

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Corrections' Response:

We concur with this finding.

As of April 1, 2007 a check log will be developed and implemented. A staff member who is totally independent from the check writing and check reconciliation process will maintain the check log. All issued check stock will be listed on the check log. The monthly bank reconciliation will now include a validation and reconciliation of this check log.

4. MISSING DOCUMENTATION (Significant Weakness)

The Daily Cash Worksheet documents the cash/checks received for the day from the various cash receipting sites. The Worksheet is scanned into the system once the deposit is made. However, for 3 of 25 cash receipts tested, Inmate Accounting could not locate either the scanned version or the hardcopy of the Worksheets. As a result, we were unable to determine whether all cash/checks received for the day were included on the Daily Cash Worksheet, that all items on the Worksheet were entered in the Offender Trust Accounting system, and that the deposit for the day agreed to the amount of cash/checks received and the amount was subsequently reviewed and approved by the Accountant.

Recommendation:

We recommend that Inmate Accounting ensure that all Daily Cash Worksheets are scanned and the hardcopy is retained.

Corrections' Response:

We concur with this finding.

The Inmate Accounting staff will improve at collecting, recording and retaining the necessary daily cash worksheets. Starting in April 2007, the verification and reconciliation of the daily cash worksheet will become part of the monthly bank reconciliation. The Accountant will also notify a supervisor immediately if a missing daily cash worksheet is noticed. The hard copy of the daily cash worksheets will be filed chronologically and the Accounting Technician's supervisor will scan the document into the system.

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5. **BANK RECONCILIATION SYSTEM ERROR** (Significant Weakness)

The bank reconciliation that the Offender Trust Accounting System generates each month calculates an incorrect beginning book balance, which results in the system being out of balance by as much as \$1,000,000. This potential system error started occurring in November 2006. Based on a preliminary review by the Department of Corrections IT Department, it appears the problem is due to a system error. If the error is not resolved, the person performing the bank reconciliation could conceal unauthorized adjustments.

Recommendation:

We recommend that the Corrections IT Department perform an analysis of the Offender Trust Accounting System in order to identify and resolve any system errors that may exist.

Corrections' Response:

We concur with this finding.

This finding has been resolved. The Department IT staff made the necessary changes to the Offender Trust Accounting system in January 2007. The problem was identified, isolated, changed and released into the production system on January 25, 2007.

6. **INADEQUATE APPROVAL OF DISBURSEMENTS**

Three of 36 Inmate Accounting disbursements tested for the period January through December 2006 did not have adequate approval. Inmate Accounting policy FDr12/03.01 L requires that staff members complete the witnessing section of the Money Transfer Form (MTF) with their complete name and Staff ID number, which should be obviously legible (initials are not accepted). The MTF should be signed by the staff member after they have witnessed the inmate sign the MTF. However, we noted that one disbursement was approved with initials only, another with ID number only, and another by name only (no ID number). As a result, these three disbursements are in violation of the Inmate Accounting disbursement approval policy.

Recommendation:

We recommend that all staff adhere to Inmate Accounting policy FDr12/03.01 L by approving inmate disbursements with their complete name and Staff ID number.

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Corrections' Response:

We concur with this finding.

Additional staff training will be conducted to ensure that all staff members are adequately trained on the procedures outlined in our Department's policy FDr12/03.01, which details the steps necessary for a completed Money Transfer Form (MTF). All MTF received by the Inmate Accounting Unit that are incomplete will be returned to DIO for proper completion before processing. This training was completed in a staff meeting held on March 16, 2007.