



DEPARTMENT OF CORRECTIONS
Navision Offender and Recipient Management (NORM) System

Management Letter
For the Period July 2006 through February 2008

Report No. 08-COR-A

*Keeping Utah
Financially Strong*

AUSTON G. JOHNSON, CPA
UTAH STATE AUDITOR



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REPORT NO. 08-COR-A

December 3, 2008

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 Department of Corrections' Navision Offender and Recipient Management (NORM) System for the period July 1, 2006 through February 29, 2008. The purpose of these procedures is to assist Corrections 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 the internal control over cash receipting procedures. We also tested samples of cash receipts transactions.
3. We performed various procedures to test for validity of recipients listed in the NORM system and propriety of the related transactions.

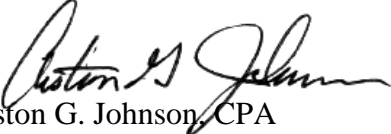
Our procedures were more limited than would be necessary to express an audit opinion on compliance or on the effectiveness of Corrections' internal control or any part thereof. Accordingly, we do not express such opinions. Alternatively, we have identified the procedures we performed and the findings resulting from those procedures. Had we performed additional procedures or had we made an audit of the effectiveness of Corrections' 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 finding Numbers 1 thru 3 are significant weaknesses to Corrections' NORM System. 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 Corrections 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 Corrections 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,

A handwritten signature in black ink, appearing to read "Auston G. Johnson". The signature is fluid and cursive, with a large initial "A" and "J".

Auston G. Johnson, CPA
Utah State Auditor

cc: Mike Haddon, Deputy Director
Robyn Williams, Deputy Director
Gary Sessions, Director, Finance Bureau
Brian Allgaier, Manager, Finance Bureau
Brent Butcher, Director, Division of Adult Probation and Parole

DEPARTMENT OF CORRECTIONS
Navision Offender and Recipient Management (NORM) System

FOR THE PERIOD JULY 2006 THROUGH FEBRUARY 2008

TABLE OF CONTENTS

	<u>Page</u>
FINDINGS AND RECOMMENDATIONS:	
1. INADEQUATE SEPARATION OF DUTIES (Significant Weakness)	1
2. NO INDEPENDENT REVIEW AND APPROVAL OF CASH RECEIPT ADJUSTMENTS (Significant Weakness)	1
3. UNTIMELY DISBURSEMENTS TO RECIPIENTS (Significant Weakness)	2
4. INADEQUATE CONTROLS OVER HANDWRITTEN RECEIPTS	3
5. IMPROPER MANAGEMENT OF RECIPIENT INFORMATION	4

DEPARTMENT OF CORRECTIONS
Navision Offender and Recipient Management (NORM) System

FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD JULY 2006 THROUGH FEBRUARY 2008

The Department of Corrections (Corrections) is responsible for the supervision and management of convicted felons. This authority also includes collecting fines and restitution from offenders. Financial obligations of offenders (fines, fees, and restitution) are recorded and tracked in the Navision Offender and Recipient Management (NORM) System. The Division of Adult Probation & Parole (AP&P) is responsible for setting up the offender obligations in the NORM System. The Finance Bureau then collects payments made by the offenders, records this information in the NORM System, and prepares disbursements for the appropriate recipients (victims or government entities). Our audit focused on the Finance Bureau and the NORM System.

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

The Finance Bureau has separation of duties weaknesses as follows:

- a. The Account Technicians who record transactions in the NORM System also handle cash and checks received, reconcile receipt records to deposited amounts, initiate disbursement checks, have access to blank checks, handle or mail signed checks, and review processed disbursements.
- b. The Manager has the ability to record transactions in the NORM System, has access to cash and checks received, prepares statements, initiates disbursement checks, signs checks, has access to blank checks, and reviews processed disbursements.

Inadequate separation of duties exists when the same individual has custody of assets, access to accounting records, and/or reconciling responsibilities. Inadequate separation of duties could allow errors and fraud to occur without detection. Most of these conflicting duties could be adequately separated by not allowing these employees access to cash and checks received.

Recommendation:

We recommend that the Finance Bureau separate conflicting duties.

2. **NO INDEPENDENT REVIEW AND APPROVAL OF CASH RECEIPT ADJUSTMENTS** (Significant Weakness)

We reviewed mail logs corresponding to the 36 cash receipts we tested and noted 13 mail logs which had been adjusted to delete one or more cash receipts listed. These adjustments were briefly noted on the mail log; however, there was no independent review or approval of the adjustments. Additionally, there was no other supporting documentation. Therefore, we were unable to verify the propriety of these adjustments. Based on the mail log notations, these adjustments were for reasons such as post-dated checks, prior non-sufficient funds checks,

DEPARTMENT OF CORRECTIONS
Navision Offender and Recipient Management (NORM) System

FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD JULY 2006 THROUGH FEBRUARY 2008

inadequate information, cash receipts not related to the NORM System, etc. Without an independent review and approval of adjustments, fraud could occur without detection.

Recommendation:

We recommend that the Finance Bureau have someone independent of the cash receiving system review and approve adjustments to cash receiving records.

3. **UNTIMELY DISBURSEMENTS TO RECIPIENTS** (Significant Weakness)

The Finance Bureau does not have policies and procedures in place to ensure that cash and checks received from offenders are processed and disbursed to recipients in a timely manner as follows:

- a. As of February 29, 2008, the Finance Bureau had 1,195 offender payments which were received 100+ days prior and 160 offender payments which were received 50+ days prior but had not yet been disbursed to recipients. These 1,355 offender payments totaled \$206,424, and 5 offender payments (totaling \$30,789) exceeded \$5,000 each. Based on our review and discussions with Finance Bureau personnel, the majority of these receipts have not been disbursed because of undeliverable mailing addresses for recipients. The Finance Bureau does not have written policies and procedures for handling this type of problem; consequently, little or no effort is made to determine proper addresses. Once recipient mail is returned as undeliverable, the checks are voided and all subsequent disbursements to the recipient are stopped and held indefinitely with no procedure in place to follow up.
- b. Of the 5 receipt transactions noted in a. above, one was held for 74 days without any apparent reason. The Finance Bureau's current practice is to wait for 30 days to ensure that the offender checks clear before payments are made to recipients. However, it is apparent that this practice is not consistently being followed since the funds were not disbursed immediately after the 30 days. Policies and procedures should be implemented and followed to ensure that available funds are disbursed immediately after the 30 days.
- c. At the time of our review, the Finance Bureau was holding \$115,300 in offender payments which they did not disburse because the Division of Adult Probation & Parole (AP&P) had not entered the offender obligations in the NORM System and, thus, the Finance Bureau did not know the recipient to disburse the payments to. However, the Finance Bureau does not follow-up with AP&P in this type of situation to obtain the information so that cash and checks received are not held unnecessarily by the Finance Bureau. Policies and

DEPARTMENT OF CORRECTIONS
Navision Offender and Recipient Management (NORM) System

FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD JULY 2006 THROUGH FEBRUARY 2008

procedures should be implemented to require communication between the Finance Bureau and AP&P to avoid untimely delays in making disbursements to recipients.

- d. We noted 37 offender payments that the Finance Bureau has held for over three years. The Unclaimed Property Act (*Utah Code 67-4a*) states that property is considered unclaimed if the “present location of the apparent owner is unknown” and the check has been “outstanding for more than three years after it was payable.” The Finance Bureau does not have written policies and procedures for remitting unclaimed property to the State’s Division of Unclaimed Property. As such, unclaimed property is inconsistently and randomly sent to the Division of Unclaimed Property, or it could remain on Corrections’ books indefinitely.

Recommendation:

We recommend that the Finance Bureau develop and implement written policies and procedures regarding disbursements to recipients. In addition, we recommend that the Finance Bureau:

- a. **Disburse payments to recipients in a timely manner and make greater efforts to locate proper addresses for those items returned for undeliverable mailing addresses.**
- b. **Disburse payments to recipients immediately after the 30-day waiting period.**
- c. **Communicate with AP&P to ensure that offender obligations are entered in the NORM System in a timely manner.**
- d. **Submit all payments for recipients which cannot be located to the State Division of Unclaimed Property within three years.**

4. **INADEQUATE CONTROLS OVER HANDWRITTEN RECEIPTS**

Handwritten receipt forms are completed for cash and checks received over-the-counter and also for cash payments received through the mail. However, the Finance Bureau does not reconcile handwritten receipts to the NORM System to ensure that all receipts are properly recorded in the system and reconciled to the deposit. The Finance Bureau should have someone who does not handle cash and checks review handwritten receipt books, including accounting for all pre-numbered receipts to ensure that all receipts are recorded in the NORM System and deposited. Not reconciling handwritten receipts can result in loss, errors, or fraud occurring without detection.

DEPARTMENT OF CORRECTIONS
Navision Offender and Recipient Management (NORM) System

FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD JULY 2006 THROUGH FEBRUARY 2008

Recommendation:

We recommend that the Finance Bureau have someone who does not handle cash and checks ensure that all pre-numbered, handwritten receipts are accounted for, recorded in the NORM System, and deposited.

5. **IMPROPER MANAGEMENT OF RECIPIENT INFORMATION**

We reviewed the recipient names entered in the NORM System and noted the following:

- At least 189 recipients have multiple ID's. Many of these recipients have a slight spelling difference or difference in the way the name is stated, but in many cases, the names and spelling are identical. In all cases, the addresses were the same. In one case, we noted a recipient that had been assigned 8 unique recipient ID numbers.
- At least 5 recipients have improper names in the name field. For example, some recipients have a date listed in the name field.

Because the Finance Bureau and AP&P are both involved in this process, they should work together to resolve duplicate or inaccurate information in the NORM System. Improper management of recipient information creates a greater risk of errors and misappropriation of cash. It also prevents recipient checks from being disbursed in an efficient and timely manner. When recipient information is inaccurate or when all addresses for multiple recipient ID's are not properly updated, payments may not be deliverable, which may contribute to additional unclaimed property identified in Finding No. 3.

Recommendation:

We recommend that the Finance Bureau work with the AP&P Division to ensure that only one ID for each recipient is listed in the NORM System and ensure that recipient information is accurate.



State of Utah

JON M. HUNTSMAN, JR.
Governor

GARY R. HERBERT
Lieutenant Governor

Department of Corrections

Executive Office

THOMAS E. PATTERSON
Executive Director

MIKE HADDON
Deputy Director Administration

ROBYN WILLIAMS
Deputy Director Operations

November 13, 2008

Auston G. Johnson, CPA
Utah State Auditor
Utah State Capitol Complex
East Office Building, Suite E310
Salt Lake City, Utah 84114-2310

Dear Mr. Johnson:

We have had the pleasure of working with your staff on **REPORT NO. 08-COR-A**. This report is a summary of your audit on our Navision Offender and Recipient Management (NORM) System. Your staff members have been professional in their work and extremely patient in helping us understand their work and findings. We appreciate their efforts and expect that their insights will help us improve what we do.

We accept and agree with the five findings and their associated recommendations listed in the audit. The directors of Adult Probation and Parole (AP&P) and of Finance have worked together and with key individuals from their organizations to make immediate changes and to set in motion planned future changes. In many of the areas we have already taken the necessary steps to implement the audit recommendations.

For Finding 1 we have made staff assignment changes including restrictions for clear segregation of duties. We have added additional documentation to processes to ensure accountability. We are researching additional options to strengthen our internal accounting controls in this area.

For Finding 2 we have made staff assignment changes and added additional documentation to resolve the issue here.

For Finding 3 we have a small group of Finance and AP&P staff members that will begin working on policies and procedures within the next 30 days. Finance staff will produce a number of timely reports for AP&P managers to help them address the problems. The Director of AP&P has appointed a person to head a task force to focus on this finding and resolve the issues.

For Finding 4 AP&P and Finance staff members will be addressing concerns here in policies and procedures and will begin that process within the next 30 days. They are also researching ways of improving the process and adding more accessibility for the public and the offenders.

For Finding 5 Finance has agreed to provide AP&P managers monthly reports to help correct the problem. The Director of AP&P will have managers report to him on the progress being made. Finance has created a form that the AP&P Director has instructed will be used by his staff to collect needed information.

The Department's Director of Internal Audit has been asked to review your audit and track the progress made in each of the findings. He will report back to you as necessary changes are completed.

We again express our appreciation to you and your staff. Our audit experiences have been very positive and we will use this report to improve how we do business.