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# Department of Rehabilitation and Correction

## Institutional Operations/Local Funds – Non-Payroll Audit

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**Audit Period: October 2013 through September 2014**

### Results Summary:

<b>Objective</b>	<b>Conclusion</b>
<b>Procurement Process for Institution's Local Funds (Industrial &amp; Entertainment and Employee Activity)</b>	<b>Major Improvement Needed</b>
<b>Monitoring for the Disbursement of Local Funds (Industrial &amp; Entertainment and Employee Activity)</b>	<b>Improvement Needed</b>

\* Please refer to Appendix A for classification of audit objective conclusions.



## **Executive Summary**

### **Background**

The Ohio Department of Rehabilitation and Correction (ODRC) is charged with the supervision of felony inmates of the state, including providing housing and monitoring the individuals through the parole process. DRC also oversees the community control sanction system that provides sentencing options for judges and the business offices which are responsible for the financial activities of the institution. Currently, there are 28 correctional institutions (including 2 privately owned and operated) throughout the State of Ohio.

DRC Operation Support Center oversees the financial activities of the institutions. Included in the financial activities are non-payroll funds which encompass local funds of Industrial and Entertainment Funds and Employee Activity Funds.

In June 2014, a report from the Ohio Inspector General revealed non-compliance with procurement rules in one institution. DRC requested assistance from OIA to evaluate compliance with the procurement process at other institutions over these funds.

Revised Code Section 5120.131 gives each correctional institution (with the director's approval) the authority to establish a local Industrial and Entertainment (I&E) fund for the entertainment and welfare of the inmates. The director will establish rules and regulations for the operation of the I&E fund.

Revised Code Section 5120.134 gives each correctional institution (upon recommendation from the institution's joint labor management committee) the authority to establish a local vending commission fund for the benefit and welfare of the employees of that institution. The fund receives profits from vending commission areas that are designated solely for use by employees. The director will establish rules for the operation of employee vending commission funds, also known as Employee Activity funds.

I&E Funds are designated for the entertainment and welfare of inmates. Disbursements of these funds shall be used for purchases that exclusively benefit inmates, and no disbursements will be approved for items to be used for the benefit of an individual inmate, inmate group, or employees. Employee Activity funds shall be used for purchases that provide benefit, welfare, morale, and productivity for employees.

During the audit, OIA identified opportunities for Department of Rehabilitation and Correction (DRC) to strengthen internal controls and improve business operations. A summary along with detailed observations, have been provided. OIA would like to thank DRC staff and management for their cooperation and time in support of this audit.

This report is solely intended for the information and use of agency management and the State Audit Committee. It is not intended for anyone other than these specified parties.



This audit conforms to the *International Standards for the Professional Practice of Internal Auditing*.

## Scope and Objectives

OIA staff was engaged to perform an assurance audit related to the controls over the agency's process for handling local funds. This work was completed September through December 2014. The scope of this audit focused on the Industrial and Entertainment and Employee Activity funds within the agency's local funds and included the following key processes:

- Requisitioning and Purchasing Goods and Services
- Operation Support Center Monitoring the Disbursement of Local Funds

The detailed audit objectives are as follows:

1. Evaluate the design and effectiveness of the controls around the procurement process for local funds.
2. Evaluate the design and effectiveness of the controls around the monitoring process for the disbursement of local funds.



## Detailed Observations and Recommendations

The Observations and Recommendations include only those risks which were deemed high or moderate. Low risk observations were discussed with individual agency management and are not part of this report. However, the low risk observations were considered as part of the audit objective conclusions.

### **Observation 1 – Cash and Gift Card Transactions**

Per the DRC Cashier's Manual, the debit card program is optional for Employee Activity (Vending) and Industrial and Entertainment (I&E) accounts. Employee Vending and I&E should have separate debit card accounts.

During our review we found that Mansfield and Madison Correctional Institutions (CIs) did not utilize cash or gift cards as a purchasing method and did have effective debit card tracking processes in place; however, we noted the following at the other four CIs:

- DRC Operation Support Center has not provided specific guidance or communicated with the CIs regarding the methods of payment the CIs should be using to make I&E and Employee Activity purchases.
- Warren CI utilizes checks, debit cards, and gift cards to make I&E and Employee Activity purchases.
- Franklin Medical Center does not have a debit card due to policies at the bank they use for the I&E or Employee Activity accounts.
- Franklin Medical Center's methods of payment are cash, purchased gift cards, pre-paid Visa cards (that impose a fee), and pre-cut checks. Cash and gift cards are used when checks are not accepted by the vendor. Cash back from checks is received when the purchase price is less than the pre-cut check.
- Franklin Medical Center keeps the gift cards locked in a safe. However, there is no log to record when they are used and by whom.
- Lebanon CI's methods of payment for I&E purchases are checks and debit cards (used when checks are not accepted by the vendor).
- Lebanon does not use a debit card for the Employee Activity Fund. Lebanon receives cash back from vendors when the purchase price is less than the pre-cut check amount. When the vendor does not accept checks, then cash is used to make the purchase.
- London CI's methods of payment for I&E purchases are checks and debit cards (used when checks are not accepted by the vendor).
- London CI does not use a debit card for the Employee Activity Fund. London receives



cash back from vendors when the purchase price is less than the pre-cut check amount. The Account Clerk Supervisor has implemented a process of requiring a suspended sale receipt prior to receiving a check in order to discontinue the practice of receiving cash back from a pre-cut check.

- London CI keeps the debit card(s) locked in a safe. However, there is no log to record when they are used and by whom.

Cash disbursements usually have the highest risk of error or fraud. The lack of complete and formally documented policies or guidance for allowable purchasing methods may lead to:

- Misuse and abuse;
- Riskier purchasing methods being used;
- Theft or lost cash/gift cards that cannot be refunded;
- Lack of oversight, accountability, and review.

### Recommendation

DRC Operation Support Center should develop and implement agency-wide guidelines and policies on allowable purchasing methods with Local Funds to promote consistency and uniformity at all correctional institutions (CIs). If necessary, create and provide training for the CIs to go over any new guidelines and policies.

Strongly consider discontinuing the practices of:

- Pre-cutting checks for transactions where the purchase price is not known prior to checkout, in order to avoid receiving cash back;
- Using cash to make transactions; and
- Purchasing pre-paid Visa and gift cards to make purchases.

*Franklin Medical Center* should consider switching to a bank that makes it easier to acquire a debit card for their I&E and Employee Activity accounts. Franklin should utilize a log for purchasing cards that records: the staff person using the card, date/time taken and returned, vendor, description of purchase, and price. The card log should be attached to each voucher packet.

*Lebanon CI* should consider obtaining a debit card for making Employee Activity Fund purchases, instead of utilizing pre-cut checks and cash.

*London CI* should consider obtaining a debit card for the Employee Activity Fund to make purchases instead of using cash and receiving cash back from pre-cut checks. London should move forward with requiring a suspended sale receipt prior to obtaining a check for the exact



purchase amount to ensure cash back is not received.

All correctional institutions (CIs) should consider implementing the following processes, some of which are currently in place at Mansfield and Madison CIs:

- Require each buyer to go to the vendor and complete a suspended sale of items they wish to purchase, and bring the receipt back to the Business Office. The Business Office then creates a purchase order (PO) and completes the request to purchase (RTP) process with the exact items and price. The Business Office/cashier then cuts a check for the exact amount and gives it to the purchaser. The purchaser goes back to the vendor to purchase the items with the exact amount on the check to avoid receiving cash back and unapproved purchases.
- If the vendor does not accept checks, then the buyer must either call ahead to the vendor and obtain the exact purchase price, or go to the vendor and complete a suspended sale and obtain a receipt of the purchase cost. Then the Business Office will create a PO and complete the RTP process. The buyer can then obtain the debit card to complete the purchase for the exact approved amount.

**Management Response**

ODRC is revising existing policies and manuals to incorporate procedures to prohibit cash advancements, pre-cut checks and prepaid gift cards to make purchases and will require that debit cards be established for the Industrial and Entertainment Fund and Employee Activity Fund. We plan to have the policies and manuals completed by January 31, 2015. Once the policies are in place, we will require that debit cards be established for the above funds by March 15, 2015. We plan to conduct a training session on the new and revised policies and manuals with the appropriate agency personnel by March 15, 2015 or earlier.

Risk*	Remediation Owner	Estimated Completion Date
High	DBA Chief	April 1, 2015

**Observation 2 – Other Considerations and Training Opportunities**

DAS Directive GS-D-12 describes the keys to effective procurement as: standardizing and combining needs wherever possible to obtain volume discounts, maintaining a staff of well-trained and certified procurement personnel, and conducting all activities openly and transparently.

The DRC Cashier’s Manual requires a Request to Purchase (RTP) with approval from the



Deputy of Administration/designee for each purchase using local funds. In addition, a request for approval must be completed by the institution's cashier's office and signed by the Managing Officer/designee if over the purchase is over \$500 for local funds. Once the goods have been received or picked up, a completed receiving report should be forwarded to the Cashier's Office.

Operational efficiencies minimize waste and maximize resource capabilities, in order to deliver quality products and services to both internal and external customers.

During testing, walk-throughs, and discussions with six correctional institutions (CIs), we identified improvement opportunities, as well as, commendable processes and control procedures at the institutions that may be beneficial to incorporate at other institutions.

### **Warren Correctional Institution:**

#### *Improvement Opportunities:*

- Three out of 25 (12%) transactions reviewed did not have the purchasing staff's supervisor sign-off for approval on the RTP.
- Two out of 25 (8%) transactions reviewed did not have the business administrator's sign-off for approval on the RTP.
- Six out of 25 (24%) transactions reviewed did not have the RTP paperwork approved prior to the purchase being made.
- Three out of six (50%) transactions reviewed that exceeded \$500 did not receive approval from Operation Support Center for the purchase.
- Two out of 25 (8%) transactions reviewed did not have a staff member sign off to show that a purchased good or service was received.
- Debit card logs are not regularly maintained, to track the staff person using the card, date/time taken and returned, vendor, description of purchase, and price.
- Business Office is not sure if cash can be withdrawn from their debit cards.
- Items purchased and brought back to the facility are not inventoried or signed off. The receipts are submitted to the Business Office and the debit card log is completed.

### **Franklin Medical Center:**

#### *Improvement Opportunities:*

- One out of 25 (4%) transactions, it appeared that an employee used their Giant Eagle Fuel Perks Card to benefit from a purchase made with I&E funds. This was also the only transaction made at Giant Eagle with I&E or Employee Activity funds within the population from which the sample was pulled.



- Items purchased and brought back to the facility are not inventoried or matched to the receipt. The purchaser signs the receipt indicating they brought back what is on the receipt.

*Commendable Processes:*

- When possible, Franklin obtains two to four quotes for purchases under \$500 to ensure they are receiving the best price.

**Lebanon Correctional Institution:**

*Improvement Opportunities:*

- 14 out of 25 (56%) transactions reviewed did not have the purchasing staff's supervisor sign-off for approval on the RTP.
- The Account Clerk Supervisor performs a reasonableness test to ensure what was purchased on the receipt is brought back to the facility; however, items are not inventoried and a receiving report is not completed.

*Commendable Processes:*

- For all purchases greater than \$500, the Account Clerk Supervisor forwards the RTP to the Warden for additional approval prior to obtaining Operation Support Center approval.

**Madison Correctional Institution:**

*Improvement Opportunities:*

- A list containing employee's signatures that received gifts (gift cards and other gifts) are obtained but are not attached to the voucher packets for the purchase of the gifts cards and gifts.
- A list of inmates attending an I&E speaking event are not attached to the voucher packet for the purchase; but, each housing unit has a sign in/out sheet to show where inmates go.

*Commendable Processes:*

- For all purchases greater than \$500, the Account Clerk Supervisor forwards the RTP to the Warden for additional approval prior to obtaining Operation Support Center approval.
- Purchasers must obtain the exact purchase price by means of a suspended sale or by calling ahead in order to obtain approval on the RTP and receive a PO.
- Requires all purchases brought back to the facility to be taken to the warehouse, have all items inventoried, and a receiving report is completed.



**Mansfield Correctional Institution:**

*Improvement Opportunities:*

- Six out of 25 (24%) transactions reviewed, it appeared the purchaser or purchaser's supervisor intentionally split the transaction to keep the purchase under \$500 in order to avoid obtaining Operation Support Center approval.
- Signatures of employees who received gifts (gift cards and other gifts) are obtained, but are not attached to the voucher packets for the purchase of the gifts cards and gifts.
- Lists of inmates attending I&E events are not attached to the voucher packet for the purchases, but each housing unit has a sign in/out sheet to show where inmates go.

*Commendable Processes:*

- Purchasers must obtain the exact purchase price by means of a suspended sale or by calling ahead in order to obtain approval on the RTP and to receive a PO.
- Requires all purchases brought back to the facility to be taken to the warehouse, have all items inventoried, and a receiving report is completed.
- For every I&E purchase, the BA attaches a Route Slip to the RTP listing the A.R. (rule) and the Operation Support Center rule for purchases over \$500, then forwards it to the Approval Committee (Warden, Deputy Warden of Special Services, and I&E Committee Member) before any purchase can be approved.

**London Correctional Institution:**

*Improvement Opportunities:*

- Four out of 25 (16%) transactions reviewed did not have the purchasing staff supervisor's sign-off for approval on the RTP.
- Two out of 25 (8%) transactions reviewed did not have the BA or Warden's sign-off for approval on the RTP.
- Two out of 25 (8%) transactions reviewed did not have an RTP or any documented approvals prior to the purchase being made.
- Three out of 25 (12%) transactions reviewed did not document that a purchased good was received.

Not adhering to a centralized or uniform process can lead to:

- Difficulty monitoring all of the correctional institutions;
- Lack of controls in place, resulting in theft and abuse;



- Errors and manipulation; and
- Noncompliance.

The lack of communication to staff and lack of training increases the likelihood of errors, noncompliance, and possibly the integrity of the correctional institutions.

### Recommendation

DRC Operation Support Center should consider developing a centralized and uniform process for I&E and Employee Activity fund purchases for all CIs to follow. Consider reviewing procedures at Madison and Mansfield when developing a centralized process.

Consider developing a quick guide or desk aid for each institution's business office to follow during the procurement process to ensure controls are in place and program objectives are being followed.

Create and provide training for staff involved in the purchasing process to:

- Reiterate what allowable and unallowable purchases are;
- Outline each step of the procurement process;
- Communicate and illustrate necessary controls, required sign-offs, and allowable purchasing methods;
- Transition new hires and current staff into new roles.

All correctional institutions, including those reviewed (Warren, Franklin, Lebanon, and London) should adopt the following policies and procedures from Madison and Mansfield CIs:

- Require all purchases received at the facility (either by mail or picked up by purchasing staff) to be taken directly to the warehouse, inventoried, and a receiving report completed listing each item and matching each to the receipt. Per the Cashier's Manual, receiving reports are to be completed and forwarded to the Cashier's Office once goods are received or picked up.
- Ensure that all debit card pin numbers are secured and not given out to purchasing staff.
- Require buyers to obtain the exact purchase price by means of a suspended sale or by calling ahead in order to obtain approval on the RTP and receive a purchase order (PO). The PO should be for the exact amount of the sale to ensure cash back is not received and unapproved purchases are not made.

Communicate and discuss DAS Directive GS-D-12 to all of the CIs to reiterate that state employees are not authorized to enroll in rewards programs (fuel perks), frequent flier programs, or any other program that provides personal gain through purchases made by state payment



cards, debit cards, or other purchasing methods. The State of Ohio and its customers must be the recipients of any benefits provided by the merchant.

**Management Response**

ODRC is revising existing policies and manuals to incorporate procedures to account for all gift cards purchased for distribution to employees as a gift; require a verification of goods (mailed or picked up) be completed by an independent source; authorize the agency to only enroll in rewards programs utilizing the name of the fund. We plan to have policies and manuals completed by January 31, 2015. Once the policies are in place, we plan to conduct a training session on the new and revised policies and manuals with the appropriate agency personnel by March 15, 2015, or earlier.

Recently, the agency developed eight-hour classroom procurement training. This training details the State Purchasing Guidelines for purchasing goods and services. This new training will begin to be offered beginning calendar year 2015 through DRC Correction Training Academy. All new and existing Business and Cashier Office personnel will be required to take this training.

In addition, the agency is in the process of creating an annual ELM fiscal training through the utilization of fiscal policies and manuals. The committee meets regularly and plans to submit the training draft by February 2, 2015. Review and approvals will occur for each topic until finalized. All new and existing Business and Cashier Office personnel will be required to take this ELM fiscal training when offered through DRC Corrections Training Academy.

Risk*	Remediation Owner	Estimated Completion Date
High	DBA Chief	April 1, 2015

**Observation 3 – Audit Approach & Methodology**

Revised Code defines responsibilities of DRC as the custodian of inmate and other local funds. Those responsibilities include maintaining and auditing those funds held at the correctional institutions. Fiscal auditing should be augmented with risk assessments of the auditees prior to determining the appropriate level of review needed.

DRC has not documented a risk-based approach to determine the extent, timing, nature, and frequency of how audits of the institutions will be conducted. All audit work papers, test spreadsheets, and reports are printed and kept in hard copy only.

DRC audit staff does not have documented guidelines or procedures for their auditors to follow for:



- Sorting an institution’s population of transactions to obtain a testing sample;
- The sampling methodology (random, haphazardly, judgmental) to select transactions;
- The number of transactions selected for the sample size; or
- Performing the testing electronically or on hard copy print-outs.

Currently, for fiscal audits, DRC utilizes a two-part audit approach for Industrial and Entertainment (I&E) funds, and fifteen transactions are selected for testing. Oldest outstanding audits will be completed first and all institutions will be audited a minimum of every three years with the intent to audit them in an eighteen-month period. Employee Activity funds are audited yearly during the Internal Management Audits (IMA); therefore, they are not covered in the DRC fiscal audits. Ten Employee Activity transactions are selected for testing.

Utilizing a predictable audit schedule increases the risk of noncompliance, fraud, waste, and abuse by the correctional institutions. In addition, not utilizing a sufficient risk-based audit selection methodology and sampling approach decreases the effectiveness of the audits. Not having a standard testing methodology, documented guidelines, or procedures to follow when conducting an audit can also lead to inefficiency and ineffectiveness of the audits.

Having only hard copy audit work papers, test spreadsheets, and reports can cause inefficiencies in completing and reviewing the audit, lost or misplaced files, and difficulty accessing files.

### Recommendation

Revise the current audit plan to include a robust risk assessment that would help determine the extent of fiscal auditing necessary at each institution.

Utilize the current audit questionnaire that each institution completes prior to their audit as one aspect of determining risk. This will assist the auditor in understanding the institutions’ risk level (high, moderate, low) and environment (internal controls and procedures).

Some factors to consider when developing a risk-based audit methodology:

- Findings, exceptions, or questioned costs noted in recent audits;
- Turnover in key positions since their last audit;
- High volume of activity or unusual purchases; and
- Methods of payment: cash, gift cards, checks, or debit cards.

Consider adding a matrix, based on the risk assessment, questionnaire, and additional factors that increase risk. For example, place the auditable business processes within a risk matrix based on low to high risk. Make necessary adjustments based on management input or



regulatory requirements. Low-risk areas could be audited every three years, moderate-risk areas audited every other year, and high-risk areas audited every year.

Revisit the audit plan each year during the update phase of the risk assessment process and make adjustments based on new or changed risk factors. This methodology provides DRC's auditors flexibility in a changing risk environment.

Consider implementing an inherent risk sampling approach based upon population size and the level of risk at an institution in order to obtain sufficient coverage in testing. Create a standard audit program or guidance that instructs audit staff on how to sort data, determine sample size, and select transactions for testing.

Explore the practice of utilizing electronic work papers to increase efficiencies. Consider the following:

- Perform and document all audit testing electronically,
- Scan and save all supporting documents to a shared drive for access by all audit staff and DRC management,
- Perform audit reviews electronically by accessing shared drive files, and save all audit reports on a shared drive.

Utilizing electronic work papers will create increased efficiency for the staff preparing work papers and managers accessing and reviewing work papers. This will also eliminate extra time spent transporting files and reduce the risk of losing audit work.

### Management Response

The FY15 risk assessment is based on the factors noted through the audit questionnaire responses, FY13 Fiscal Audit Observations, Calendar Year 2014 Internal Management Audit (IMA) non-compliant Ohio Standards – Fiscal Chapter 14 and findings noted through the Office of the Inspector General Investigations. The risk level is being assessed and evaluated annually among the 26 facilities for the fiscal and IMA audits. We plan to fully document our risk-based assessment model for audit testing purposes to include the results of the current monitoring efforts. We will revisit the audit plan each fiscal year for possible adjustments based on new and or changed risk factors. We also plan to evaluate the fiscal Ohio Standards each calendar year by modifying, adding, or deleting the standards based on new and or changed risk factors.

Guidance on how to sort data, determine sample size and select transactions for testing will be given to auditors.

All of the electronic files used for testing (i.e. Microsoft Excel and Word files) are created from shared master files that are updated annually. The master files are used to create files for each institution that are maintained on the server. All of the auditors have access to these files.



Risk*	Remediation Owner	Estimated Completion Date
Moderate	DRC Fiscal Auditor	April 1, 2015

### Observation 4 – Policies and Procedures

Revised Code Section 5120.131 gives each correctional institution (with the director’s approval) the authority to establish a local Industrial and Entertainment (I&E) fund for the entertainment and welfare of the inmates. The director will establish rules and regulations for the operation of the I&E fund.

Revised Code Section 5120.134 gives each correctional institution (upon recommendation from the institution’s joint labor management committee) the authority to establish a local vending commission fund for the benefit and welfare of the employees of that institution. The fund receives profits from vending commission areas that are designated solely for use by employees. The director will establish rules for the operation of employee vending commission funds, also known as Employee Activity funds.

DRC currently maintains agency-wide policy manuals over the use of Employee Activity (Vending) and Industrial and Entertainment (I&E) funds. Although these manuals provide guidance to employees when initiating purchase requests, it does not provide detailed instructions for tracking, monitoring, and documenting subsequent procurement processes.

The individual institutions do not have documented policies and procedures in place. The Operation Support Center Cashier’s Manual and DRC’s policies and procedures, specifically I&E Funds for Outside Entertainment 24-CAS-01 and Employee Activity Funds 22-BUS-03 are incomplete. Specifically, the documented policies and procedures do not address or are not detailed enough to address the following:

- Splitting transactions in order to circumvent the \$500 threshold that requires Operation Support Center approval;
- Acceptable methods of payment (cash, gift cards, checks, debit cards);
- Allowable and unallowable purchases;
- Requiring institutions to have documented processes and/or quick guides for departments and Account Clerks to reference to ensure that all of the necessary forms, reviews, and approvals are completed prior to and after the purchase.

The lack of complete and formally documented policies and procedures may lead to:

- Misuse and abuse,



- Purchases not complying with state requirements,
- Lack of oversight, accountability and review,
- Funds not utilized for the employees or inmates benefit, and
- Inconsistency among the institutions.

### Recommendation

Update the Cashier's Manual and DRC's policies and procedures for I&E Funds for Outside Entertainment 24-CAS-01 and Employee Activity Funds 22-BUS-03 to include policies and procedures for:

- Detailing the procurement process steps from the initial request, to the approval, to the purchase.
- Requiring each institution to create and document their policies and procedures for I&E and Employee Activity funds.
- Outlining unacceptable practices, such as splitting transactions in order to circumvent controls.
- Outlining acceptable methods of payment; if purchasing and using gift cards and pre-paid credit cards are allowable forms of payment;
- Using cash as a method of payment;
- Receiving cash back from the pre-cut checks; and
- Outlining specific items or categories of items that can or cannot be purchased with each type of local fund.

The policies and procedures should define individuals' roles and responsibilities of the tasks performed. The tasks should be sufficient that individuals not familiar with the process can assist and perform the tasks effectively and efficiently. The policies and procedures should be formally documented, approved by management, and periodically reviewed for updates.

### Management Response

ODRC policies and manuals govern the operations for all locations within the agency. ODRC is revising existing policies and manuals to incorporate procedures to account for all gift cards purchased for distribution to employees as a gift and to prohibit the splitting of transactions to circumvent controls. A new policy is being created to address the fiscal operation of the Industrial and Entertainment Fund that will include the prohibition to purchase goods and or services that the State of Ohio is required to provide to the wards of the State.



Recently, the agency developed eight-hour classroom procurement training. This training details the State Purchasing Guidelines for purchasing goods and services. This training will begin to be offered beginning calendar year 2015. In addition, the agency is in the process of creating an annual ELM fiscal training through the utilization of fiscal policies and manuals. All new and existing Business and Cashier Office personnel will be required to take these trainings.

Risk*	Remediation Owner	Estimated Completion Date
Moderate	DBA Chief	April 1, 2015

### Observation 5 – Central Office Periodic Monitoring & CACTAS Descriptions

An effective program includes periodic monitoring and review to help ensure compliance with program guidelines and expectations. Periodic reviews should be conducted to help identify noncompliance within the program prior to annual audits being conducted. A reviewer must have adequate information provided to them to complete the review.

Periodic fiscal audits are conducted by the DRC audit team at the correctional institutions at least once every three years. Aside from the fiscal audits, the DRC audit team has been performing Internal Management Audits (IMA) annually for all institutions to act as an additional monitoring tool. Employee Activity funds were included in the IMAs, but Industrial and Entertainment (I&E) funds were not included, at the time of OIA's engagement. There is no real-time, periodic monitoring conducted by Operation Support Center over Local Funds or by the institutions.

The correctional institutions are required to enter all transactions into the Cashless Commissary and Trust Accounting System (CACTAS) to ensure accurate accounting records. Transactions are being accounted for; however, there are recurring inconsistencies in how the institutions are entering the purchase descriptions into CACTAS. Institutions are entering inaccurate and incomplete descriptions in CACTAS for purchases made with Local Funds.

The lack of periodic monitoring and review increases the risk of:

- Noncompliance, unallowable purchases, or circumventing controls;
- Audit findings that could have been avoided;
- Program expectations not being met.

Not entering accurate descriptions of purchases into CACTAS can lead to ineffective or difficult audit and monitoring reviews.



Recommendation		
<p>Consider creating, implementing, and conducting periodic desk reviews via CACTAS at Operation Support Center to ensure that guidelines, expectations, controls, and allowable purchases are being adhered to prior to annual audits being performed. This review could be as informal as sorting local fund transactions for a CI, selecting a small judgmental sample from CACTAS to identify unusual vendors, unallowable purchases, and/or potential split transactions, and briefly inquiring or forwarding potential findings to the DRC audit team for further inquiry, if needed. Document the periodic reviews and track communication with each institution to ensure action is being taken and progress is being made on issues noted.</p> <p>Communicate and train correctional institution personnel on how to enter complete and accurate purchase descriptions into CACTAS to assist with the performance of annual audits and periodic monitoring reviews.</p>		
Management Response		
<p>In October 2014, an agency-wide Cashier Commissary and Trust Accounting System (CACTAS) training was held with Business and Cashier Office personnel to train and address recurring inconsistencies in how the institutions are entering inaccurate and incomplete data into CACTAS including purchase transactions. The Industrial and Entertainment (I&amp;E) funds will be added to the Internal Management Audit (IMA).</p>		
Risk*	Remediation Owner	Estimated Completion Date
<b>Moderate</b>	DBA Chief	April 1, 2015

Due to the limited nature of our audit, we have not fully assessed the cost-benefit relationship of implementing the observations and recommendations suggested above. However, these observations reflect our continuing desire to assist your department in achieving improvements in internal controls, compliance, and operational efficiencies.

\* Refer to Appendix A for classification of audit observations.



Appendix A – Classification of Conclusions and Observations

**Classification of Audit Objective Conclusions**

Conclusion	Description of Factors
<b>Well-Controlled</b>	The processes are appropriately designed and/or are operating effectively to manage risks. Control issues may exist, but are minor.
<b>Well-Controlled with Improvement Needed</b>	The processes have design or operating effectiveness deficiencies but do not compromise achievement of important control objectives.
<b>Improvement Needed</b>	Weaknesses are present that compromise achievement of one or more control objectives but do not prevent the process from achieving its overall purpose. While important weaknesses exist, their impact is not widespread.
<b>Major Improvement Needed</b>	Weaknesses are present that could potentially compromise achievement of its overall purpose. The impact of weaknesses on management of risks is widespread due to the number or nature of the weaknesses.

**Classification of Audit Observations**

Rating	Description of Factors	Reporting Level
<b>Low</b>	Observation poses relatively minor exposure to an agency under review. Represents a process improvement opportunity.	Agency Management; State Audit Committee (Not reported)
<b>Moderate</b>	Observation has moderate impact to the agency. Exposure may be significant to unit within an agency, but not to the agency as a whole. Compensating controls may exist but are not operating as designed. Requires near-term agency attention.	Agency Management and State Audit Committee
<b>High</b>	Observation has broad (state or agency wide) impact and possible or existing material exposure requiring immediate agency attention and remediation.	Agency Management and State Audit Committee