

# STATE OF CONNECTICUT

**AUDITORS' REPORT  
DEPARTMENT OF CORRECTION  
FOR THE FISCAL YEARS ENDED JUNE 30, 2002 AND 2003**

**AUDITORS OF PUBLIC ACCOUNTS  
KEVIN P. JOHNSTON ♦ ROBERT G. JAEKLE**

January 13, 2005

**AUDITORS' REPORT  
DEPARTMENT OF CORRECTION  
FOR THE FISCAL YEARS ENDED JUNE 30, 2002 AND 2003**

We have made an examination of the financial records of the Department of Correction for the fiscal years ended June 30, 2002 and 2003. This report on our examination consists of Comments, Recommendations and Certification which follow.

The financial statement presentation and auditing of the books and accounts of the State are done on a Statewide Single Audit basis to include all State agencies including the Department of Correction. This audit examination has been limited to assessing compliance with certain provisions of financial related laws, regulations, contracts and grants and evaluating internal control policies and procedures established to ensure such compliance.

**COMMENTS**

**FOREWORD:**

The Department of Correction operates under Title 18, Sections 18-7 through 18-107 of the General Statutes. It defines its mission as protecting the public, protecting staff, and providing safe, secure and humane supervision of offenders with opportunities that support successful community reintegration.

The Department is headed by a Commissioner who is responsible for the administration, coordination and control of the operations of the Department and for the overall supervision and direction of all institutions, facilities and activities of the Department. John J. Armstrong served as Commissioner until his retirement on March 9, 2003. Effective March 17, 2003, Theresa C. Lantz was appointed Commissioner and served in this capacity throughout the remainder of the audited period.

Agency business operations are located within its administrative offices in Wethersfield. The Department operates the following 18 correctional institutions (CI) or correctional centers (CC):

## *Auditors of Public Accounts*

---

Bergin CI	Garner CI	Northern CI
Bridgeport CC	Gates CI	Osborn CI
Brooklyn CI	Hartford CC	Robinson CI
Cheshire CI	MacDougall-Walker CI	Webster CI
Corrigan-Radgowski CC	Manson Youth Institution	Williard-Cybulski CI
Enfield CI	New Haven CC	York CI

Each facility is established at one of four levels of security ranging from level 2, low security, to level 5, high security. Level 1 is for inmates who have been released into the community but are still in the custody of the DOC.

According to Department statistics, total inmate population as of June 30, 2003, was 19,121. Included in the total were 500 inmates held in out-of-State facilities. Total male and female inmate population as of June 30, 2003, was 17,710 and 1,411, respectively.

### **Board of Pardons:**

The Board of Pardons is an autonomous body, which operates within the Department of Correction for administrative purposes only. It operates under the authority of Title 18, Chapter 321, Sections 18-24a through 18-30 of the General Statutes.

The Board of Pardons consists of five members, residents of this State, appointed by the Governor with the advice and consent of either House of the General Assembly. The Board members serve six-year terms.

Expenditures for the Board of Pardons totaled \$29,619 and \$28,080 for the 2001–2002 and 2002–2003 fiscal years, respectively, and consisted mainly of contractual services for the Board's secretary.

### **RÉSUMÉ OF OPERATIONS:**

#### **General Fund Revenues and Receipts:**

General Fund revenues and other receipts of the Department of Correction for the audited period and the prior year were as follows:

	<b><u>Fiscal Year Ended June 30,</u></b>		
	<b><u>2003</u></b>	<b><u>2002</u></b>	<b><u>2001</u></b>
Restricted contributions – Federal	\$ 3,913,740	\$ 8,151,111	\$ 5,672,030
Restricted contributions – other than Federal	1,835,717	990,844	808,012
Refunds of prior year's expenditures	1,230,982	816,983	684,800
Refunds of current year expenditures	2,881,205	2,655,088	2,310,357
Board of inmates in jail	6,843,812	5,954,039	4,819,343
All other revenue	<u>1,082,458</u>	<u>645,438</u>	<u>447,040</u>
<b>Total Revenues and Receipts</b>	<b><u>\$17,787,914</u></b>	<b><u>\$19,213,503</u></b>	<b><u>\$14,741,582</u></b>

Receipts increased by \$4,471,921 during the 2001–2002 fiscal year and decreased by \$1,425,589 during the 2002–2003 fiscal year. These changes were attributable primarily to Federal grant receipts, restricted contributions—other than Federal, and board of inmates in jail.

Federal restricted contributions increased by \$2,479,081 during the 2001–2002 fiscal year and decreased by \$4,237,371 during the 2002–2003 fiscal year. A significant portion of these fluctuations was due to timing differences in the receipt of State Criminal Alien Assistance Program funds (SCAAP) from the Federal Office of Justice. During the 2001–2002 fiscal year, two years of SCAAP funding totaling \$3,369,218 was received, while no funding was received during the 2002–2003 fiscal year. Restricted contributions—other than Federal increased by \$844,873 in the 2002–2003 fiscal year due primarily to the transfer of commissary profits of \$1,027,000 from the Correctional Industries Fund to the General Welfare Fund, which is accounted for within a General Fund private restricted account. Board of inmates in jail increased by \$1,134,696 and \$889,773 during the respective audited fiscal years as a result of reimbursements from the United States Immigration and Naturalization Service (INS) for holding an increasing number of INS detainees.

**General Fund Expenditures:**

General Fund expenditures for the Department of Correction are summarized below:

	<u>Fiscal Year Ended June 30,</u>		
	<u>2003</u>	<u>2002</u>	<u>2001</u>
Budgeted Accounts:			
Personal services	\$339,922,750	\$326,609,522	\$310,461,327
Contractual services – Medical fees	76,283,376	71,745,306	68,334,710
Contractual services – All other	41,783,642	42,558,954	41,798,388
Commodities – Food	13,672,161	13,290,425	13,222,691
Commodities – All other	16,211,694	17,406,753	18,495,515
Workers' Compensation	22,255,285	19,038,742	19,574,931
Sundry Charges	2,233,908	3,401,381	3,439,921
State Grants – Residential (Halfway houses) and Non-residential community services	17,234,926	18,061,946	17,174,867
Other State Grants	945,551	979,670	981,670
Equipment	<u>250,932</u>	<u>310,960</u>	<u>47,299</u>
<b>Total Budgeted Accounts</b>	<b>530,794,225</b>	<b>513,403,659</b>	<b>493,951,319</b>
Restricted Accounts:			
Federal Accounts	2,986,224	3,371,920	2,649,198
Other than Federal Accounts	<u>1,229,724</u>	<u>1,276,839</u>	<u>1,205,800</u>
<b>Total Expenditures</b>	<b><u>\$535,010,173</u></b>	<b><u>\$518,052,418</u></b>	<b><u>\$497,806,317</u></b>

Budgeted account expenditures increased by \$19,452,340 and \$17,390,566 during the fiscal years ended June 30, 2002 and 2003, respectively. Personal services and contractual services—medical fees account for the majority of budgeted account expenditure increases.

## ***Auditors of Public Accounts***

---

Personal services increases of \$16,148,195 and \$13,313,228 during the respective audited fiscal years were due to annual salary increases with 2002–2003 fiscal year increases being partially offset by decreases in staffing levels. State financial problems resulted in budgetary cuts that reduced staffing levels paid by budgeted accounts from 6,601 full-time positions at June 30, 2002, to 6,194 positions at June 30, 2003.

Contractual services—medical fees consisted almost exclusively of payments to the University of Connecticut Health Center made under a memorandum of understanding to provide a comprehensive managed health care program for inmates. Payments for medical fees increased by \$3,410,596 and \$4,538,070 during the respective audited fiscal years due to several factors. These include annual salary increases for Health Center staff, the growth in pharmaceutical expenses for HIV/AIDS treatment and psychotropic medications, and the increased use of contracted medical services to provide mental health services.

The Agency purchased equipment through the Capital Equipment Purchases Fund totaling \$1,804,396 and \$2,329,345 for the 2001–2002 and 2002–2003 fiscal years, respectively.

### **Correctional Industries Fund:**

The Correctional Industries Fund accounts for the operations of Correctional Enterprises of Connecticut (CEC) and inmate commissaries. Through the use of inmate labor, CEC produces goods and/or services that are sold primarily to other State agencies. CEC may also sell items to other governmental agencies or private nonprofit entities. The inmate commissaries sell various personal supplies and food items to inmates. Monies are transferred from the individual Inmates' Fund accounts to the Correctional Industries Fund when inmates purchase commissary items. A summary of cash receipts and disbursements for the Fund for the audited period follows:

	<u>CEC</u>	<u>Commissary</u>	<u>Total</u>
<b>Cash Balance, July 1, 2001</b>	<b>\$ 1,227,242</b>	<b>\$ 4,497,189</b>	<b>\$ 5,724,431</b>
Receipts	8,775,506	12,611,211	21,386,717
Disbursements	<u>7,240,683</u>	<u>11,802,641</u>	<u>19,043,324</u>
<b>Cash Balance, June 30, 2002</b>	<b>2,762,065</b>	<b>5,305,759</b>	<b>8,067,824</b>
Receipts	7,247,978	12,916,849	20,164,827
Disbursements	<u>8,837,091</u>	<u>13,821,809</u>	<u>22,658,900</u>
<b>Cash Balance, June 30, 2003</b>	<b><u>\$ 1,172,952</u></b>	<b><u>\$ 4,400,799</u></b>	<b><u>\$ 5,573,751</u></b>

Cash receipts decreases of \$1,221,890 during the 2002–2003 fiscal year were primarily attributable to CEC operations. The decrease in CEC's cash receipts was primarily due to decreased activity in motor vehicle marker plate operations as a result of the completion of the State's two license plate replacement program.

Cash disbursement increases of \$3,615,576 during the 2002–2003 fiscal year were attributable to both CEC and commissary operations. CEC cash disbursement increases of \$1,596,408 included:

1. The partial repayment of \$250,000 of working capital loans to the General Fund.
2. Implementation of an inmate incentive work program contributed to increases of \$239,000 in inmates' pay.
3. Equipment purchases increased by \$305,556 to \$533,919, which was used for general upgrading of existing equipment as well as for larger purchases including \$191,826 for a digital printing press, \$65,100 for a patternless edger and \$58,132 for a mattress filling machine.
4. Manufacturing supplies increased by \$667,209, including increases of about \$316,000 in supply purchases relating to the start up of a new operation to manufacture plastic bags and a decrease of about \$925,000 due to the completion of the two license plate replacement program, which was offset by an approximate \$1,150,000 increase in textile shop operations.

Commissary cash disbursement increases of \$2,019,168 resulted primarily from increases in purchases due to higher sales activity and general price increases for such purchases, commissary staff salary increases, and the payment of \$1,027,000 to the General Welfare Fund, a General Fund restricted account, representing the transfer of commissary profits accumulated from several years' operations.

**Per Capita Costs:**

The weighted average daily per capita cost for the operation of correctional facilities, as calculated by the State Comptroller for the 2001–2002 fiscal year was \$99. The cost for the 2002–2003 fiscal year was \$96.

**Fiduciary Funds:**

The DOC maintains two fiduciary funds, a Special Projects Activity Fund and an Inmates' Fund. Activity Funds operate under the provisions of Sections 4-52 through 4-57a of the General Statutes. The Special Projects Activity Fund accounts for various minor inmate events. Inmates' Funds are custodial accounts for inmates' personal monies.

According to Agency financial statements, cash and cash equivalents as of June 30, 2003, totaled \$2,044,915 for the Inmates' Fund and \$94,731 for the Special Projects Activity Fund.

**Program Evaluation:**

Section 2-90 of the General Statutes authorizes the Auditors of Public Accounts to perform program evaluations. The Department of Correction's Correctional Enterprises of Connecticut (CEC), which operates under the provisions of Section 18-88 of the General Statutes, administers a number of inmate work programs with a major goal of providing inmates with marketable work skills. CEC work programs involve producing products and providing services including furniture, office systems, printing, textiles, and data entry. CEC's product sales and services are primarily limited to State agencies, towns, municipalities, nonprofit groups, schools, and religious organizations. During the audited period, the Department's management was confronted with a number of issues and concerns about CEC operations. Accordingly, we have

decided to perform a program evaluation of the Department of Correction's oversight of CEC operations.

Over the past several years, the Department of Correction has had concerns about the effectiveness of CEC operations. Areas of concern included overtime, equipment purchases and textile shop inventory levels. As part of reviewing CEC operations, the Department had also used the services of two consultants on separate occasions.

The Department was concerned about significant overtime usage by CEC and, with the help of a consultant, conducted reviews of overtime. The Department found a number of weaknesses in approval and justification of overtime with a primary concern of why increased overtime did not result in higher production levels. Action to resolve findings and concerns on overtime was delegated to CEC's Director who was unable to adequately correct or address these concerns. Ultimately, a new Director was appointed during May 2003. The new Director was successful in strengthening overtime procedures, which resulted in significant reductions in overtime as shown by the following comparison:

<u>OT Payments – 1<sup>st</sup> Nine Pay-periods of FY</u>	
2001–2002	3,778.30 OT hours
2002–2003	2,663.25 OT hours
2003–2004	535.25 OT hours

The second area of concern was over the significant amounts being expended for equipment, which totaled \$469,012, \$228,364 and \$533,919 during the fiscal years ended June 30, 2001, 2002 and 2003, respectively. Concerns arose because CEC inmate labor costs are low making labor intensive type ventures advantageous unlike those that require high capital investment. It is difficult to assess the effectiveness of equipment purchased in recent years, but the Department has gained a greater awareness for evaluating equipment needs in future endeavors.

A third concern that had arisen was a significant increase in the amount of manufacturing supplies used for the Textile Shop operation, which during the 2002–2003 fiscal year, increased from \$855,359 to \$2,003,940, an increase of \$1,148,581. In addition, raw material and finished goods inventory, at June 30, 2003, had increased by \$985,435, when compared to the June 30, 2002 inventory. The large increase in manufacturing supply purchases was essentially used to build up inventory levels. During the 2003–2004 fiscal year, manufacturing supply purchases returned to prior 2002–2003 fiscal year levels by decreasing to \$866,000, with the June 30, 2004 inventory balances also decreasing by over \$400,000.

In summary, the Department of Correction identified potential problem areas in CEC operations, performed follow up reviews and took corrective action. The Department has demonstrated that it effectively monitored CEC program operations and followed sound management practices.

## CONDITION OF RECORDS

Our review of the Department's records revealed several areas requiring improvement or further comment as discussed below:

### **Late Deposits:**

*Criteria:* Section 4-32 of the General Statutes requires receipts of \$500 or more to be deposited within 24 hours and, receipts totaling less than \$500, within seven calendar days.

*Conditions:*

1. Testing of 20 cash receipt transactions for Café 24 operations, accounted for within a General Fund private restricted account, disclosed that one day's receipts for \$244 was deposited one day late.
2. Testing of 20 Inmates' Fund cash receipts disclosed that one receipt for \$50 was deposited four days late.
3. On March 4, 2004, the Department deposited 26 checks totaling \$13,559 that had been received during the period of September 30, 2003 through February 10, 2004.

*Effect:* The above incidents are violations of Section 4-32 of the General Statutes.

*Causes:*

1. Late deposits were made at the Café 24 located at the Cheshire facility because receipts were being deposited by applying statutory limits on the sole basis of their individual operations without considering the total receipts being collected by the Department as a whole.
2. Automated system updates to the Inmates' Fund accounting system resulted in late deposits.
3. Vendor refund checks were received by the accounts payable unit and were improperly filed in an accounts payable file instead of being forwarded to the business office for deposit.

*Recommendation:* The Department of Correction should ensure that all deposits are made in a timely manner in accordance with Section 4-32 of the General Statutes. (See Recommendation 1.)

*Agency Response:*

- “1. Café South located at the Training Center in Cheshire is now making bank deposits on a daily basis.
2. This condition refers to a money order received in the mail at Gates Correctional Institution on December 26, 2001 and picked up by the Inmate Trust Fund (ITF) courier on December 27,

2001. The money order was sent to Enfield Central Receipts Office for deposit and was not deposited until January 4, 2002.

The Inmate Trust Fund is now consolidated in one location at DOC Central Office, 24 Wolcott Hill Rd Wethersfield, CT. All money orders and cash received at the facilities are picked up daily by the ITF courier and brought to Wethersfield. The funds are processed for deposit the next day and picked up by Armored Car service, for deposit the same day. This allows for timely deposits with our two-day deposit waiver from the Comptroller.

3. A staff member thought a vendor was going to replace checks with a credit. The Department has reinforced the requirement that all checks received need to be deposited within 24 hours. The Accounting unit deposits all funds within 24 hours of receipt.  
”

#### **Incarceration Cost Recoveries From Inmates:**

*Criteria:* Section 18-85a-4 of the State Regulations concerning the Department of Correction states that the inmate’s responsibility to pay the assessed cost of incarceration shall be discharged in part by a ten percent deduction from all deposits made to an individual account including deposits made from work assignments. Under Section 18-85a-2 of the Regulations, inmates shall be charged for the costs of incarceration on or after October 1, 1997.

*Condition:* The Department has not yet begun complying with regulations that require ten percent to be deducted from inmates’ accounts receipts for the recovery of the costs of incarceration.

*Effect:* The Department has not complied with its regulations to recover costs of incarceration from inmates.

*Cause:* The Department has not complied with current regulations and would like to change regulations from recovering ten percent for the cost of incarceration to requiring inmates to save ten percent of their inmate funds for use after their release.

*Recommendation:* The Department of Correction should take appropriate action to comply with or amend regulations regarding the recovery of incarceration costs from inmates. (See Recommendation 2.)

*Agency Response:* “The ten percent implementation has been delayed pending the legislative review of Departmental plans to modify the Cost of

Incarceration Regulation 18-85a-4 to fulfill inmate discharge requirements under Section 18-93 of the General Statutes. The modification would direct the ten percent deductions first to a mandatory discharge savings account until the inmate accumulates a total of \$500. Any additional deductions would be applied toward the inmate's cost of incarceration. The discharge savings account balance would be returned to discharging inmates for their transition back to the community in an effort to moderate the recidivism rate. The reduction and/or elimination of Gate Money would result in cost savings for the Department."

**Inmate Payroll:**

- Criteria:* The DOC Administrative Directive 10.1, Inmate Assignment and Pay Plan, requires the Unit Administrator to establish procedures to ensure that adequate payroll procedures are in place including procedures over daily attendance records and inmate job classification pay rates.
- Condition:* A review of 15 Commissary inmates' payroll payments disclosed that six payments were not adequately supported by timesheets and seven lacked "*Worker Pay Raise Justification*" forms used to support inmate pay rates.
- Effect:* The lack of documentation for payroll can result in inappropriate payments being made.
- Cause:* Time records were discarded, lost or not in agreement with amounts paid to inmates.
- Recommendation:* Controls over Commissary inmates' payroll should be improved. (See Recommendation 3.)
- Agency Response:* "The Commissaries have set up files for inmate pay issues, and each district will ensure that Inmate Rosters will reflect actual hours worked. All documentation will be maintained for three years in accordance with record retention standards. The Pay Raise Justification forms are currently being used for all pay increases and filed in the inmate pay folder. Adjustments to inmate pay rates are now centrally controlled within our Inmate Trust Fund payroll processing system."

**Property Control:**

*Criteria:* The State Property Control Manual requires each State agency to establish and maintain adequate and accurate property control records. Such records should provide for the complete accountability and safeguarding of assets.

*Conditions:*

1. At June 30, 2003, software inventory was valued at \$2,693,013 on the annual inventory report when software inventory subsidiary records totaled \$193,465, a difference of \$2,499,548.
2. Weaknesses encountered in the review of Correctional Enterprises of Connecticut's (CEC) inventory included:
  - a. Equipment disposals were not removed from accounting records used to prepare CEC's financial statements.
  - b. Equipment capitalized on the Department's centralized inventory records but not recorded on CEC's financial records included ten sewing machines costing \$17,274, a beveler tool costing \$1,371, and printer accessories costing \$1,186.
  - c. Equipment recorded as capitalized equipment on CEC's financial records but not on the Department's centralized inventory records included two office workstations costing \$18,360, a shrink package system component costing \$2,340, and a printer feeder attachment costing \$625.
3. A garbage crushing machine purchased in May 2002 for \$1,738 was not recorded on the Department's centralized inventory records.
4. 298 pistols costing \$172,840 were recorded on inventory records at \$157,940, net of \$14,900 trade-in-value for old pistols.

*Effect:* Property control weaknesses increase the risk that inventory is not properly being recorded and safeguarded.

*Causes:*

1. Total software inventory being reported on annual inventory reports was not reconciled to subsidiary records. The cost of software was not always recorded on subsidiary records.
2.
  - a. The CEC accounting unit did not follow up on and eliminate equipment disposals on records because they felt that depreciation would eventually result in all equipment having a net book value of zero.
  - b. Equipment items that were not recorded on CEC's inventory records were the result of purchases not having been coded as equipment.
  - c. The centralized inventory unit did not record certain equipment items because either, they believed that they were purchased for resale or due to clerical error.

3. The equipment purchase was not added to inventory records because of clerical error.
4. Inventory personnel were unfamiliar with the State inventory policy that required inventory to be valued at gross cost irrespective of trade-in amounts.

*Recommendation:* Inventory controls should be strengthened to ensure that assets are properly recorded and safeguarded. (See Recommendation 4.)

*Agency Response:* “1. DOC Asset Management develops an annual expenditure report from the financials EDP system (SAAAS or CORE) to capture all Software purchases and/or upgrades. The report is then presented to the respective unit manager (MIS, Education and CEC) and CO-59 reportable expenditures are identified. These reportable “identified” software expenditures are reported on the CO-59 under Exceptional items.

In accordance with the Department of Correction Administrative Directive 3.4 “Inventory Control, the DOC MIS, Education and CEC units are required to maintain comprehensive databases of software procured for the DOC use in accordance with the Comptroller Software policy manual.

The Audit “Condition” infers a complete reconciliation of Software CO-59 Ending Balance \$2,693,013 to aggregate DOC units’ software license databases. Beginning around 2002, DOC software curator units (MIS, Education and CEC) created databases (of new software license purchases) in accordance with the Comptroller Software Manual. Since these software license databases were established much later than CO-59 reported “cumulative” software purchases reflecting multiple years, the software databases did not reconcile with the reported CO-59 Software ending balance. A good faith effort has been made to establish and track software licenses.

- 2a. Responding to the Audit Team’s review, our Accounting Unit has coordinated with the Inventory Unit to compile a complete physical inventory of all capital equipment. This has already been completed and the results will be used to update all historical cost information in the financial statements. There will be no impact on the net worth as reported in the Balance Sheet or on the depreciation expense on the Operating Income Statements as a result of these adjustments.

- 2b. These initial requisitions were not priced, which led to an erroneous determination that the threshold for capital expenditures was not exceeded. Responsibility for capital/non-capital coding will be placed on the Purchasing Unit to prevent future errors.
3. The Filter/Container Crusher, or “Garbage Crushing Machine” capital asset was not coded as a capital item at the time of purchase, therefore not captured on the DOC Asset System. The correction has been made, and a full reconciliation of DOC-CEC reportable assets was completed. A protocol to identify capital items through coding has been implemented.
4. Application of trade-in value to a purchase is a unique circumstance in our purchasing process. Upon clarification by the Audit team, the inventory staff took immediate action to update the 298 pistols at full value and a copy of the revised records reporting was presented to the auditor with favorable acceptance.”

**Documentation of Education and Training:**

<i>Criteria:</i>	Sound business practice requires complete documentation of expenditures including verification that the services were received. Also, Agency procedures for reimbursement for the cost of training require employees completing training to provide a copy of a certificate or other proof of attendance.
<i>Condition:</i>	Our review disclosed that three out of 16 payments for education and training were not supported by any proof of attendance.
<i>Effect:</i>	Without proof of attendance, there is a lack of assurance that staff has actually attended and successfully completed training sessions paid for by the State.
<i>Cause:</i>	The Agency did not always follow its procedures for documenting continuing education.
<i>Recommendation:</i>	The Department of Correction should ensure that payments for training courses, conferences or seminars are documented by proof of attendance. (See Recommendation 5.)
<i>Agency Response:</i>	“The Department has since issued a memo advising staff that documentation is required for work-related courses, seminars,

workshops, or conferences outside of the Department. Documentation will support training records and a reminder to staff will be included with each approved Travel Authorization Request package.”

**Correctional Enterprises – Cost Accounting Records:**

- Criteria:* The Correctional Enterprises of Connecticut’s (CEC) mission statement provides, in part, for employment of the maximum number of inmates consistent with a net operating income and positive cash flow. According to Section 18-88, subsection (e), of the General Statutes, CEC’s products shall be sold at prices comparable with the lowest market prices for products sold outside the institutions. CEC’s policy and procedures manual, policy 1.2.1, requires the maintenance of cost and pricing information to measure performance and to assist in identifying problems and situations needing management attention.
- Condition:* Cost accounting worksheets for CEC operations were not maintained on a current basis. With the exception of manufacturing overhead, which was updated annually by the CEC’s accounting unit, most cost information was not being reviewed or updated. Information generally not updated on cost accounting worksheets included cost data on material, labor, and sales pricing with comparison to prevailing market prices.
- Effect:* Without the proper maintenance of cost information, management oversight over cost and pricing of CEC’s products and services is weakened.
- Cause:* There appears to be a lack of coordination between CEC’s management and its accounting unit over the maintenance of cost data. CEC’s management maintained its own sales, prevailing market prices and cost information but this information was not periodically updated on cost accounting worksheets.
- Recommendation:* The maintenance of cost accounting information on Correctional Enterprises of Connecticut’s operations should be improved to ensure that manufacturing and service costs are accurate and that sale prices are compared to applicable prevailing market prices. (See Recommendation 6.)
- Agency Response:* “In July 2003, CEC began a financial review which includes compiling and incorporating market information into the pricing manual, along with annual overhead valuations provided by the Fiscal Accounting Unit.”

## RECOMMENDATIONS

Our prior report on the Department of Correction contained eight recommendations. Of the recommendations, three have been implemented or otherwise resolved and five have been repeated herein. As a result of our current examination, we have included a new recommendation concerning late deposits. The status of the prior recommendations is presented below:

- *The Agency should take the necessary steps to ensure timely compliance with regulations regarding the cost of incarceration by inmates* – The Department has not complied with this recommendation and it is being repeated. (See Recommendation 2.)
- *The Agency should maintain its property control records according to the State’s Property Control Manual guidelines as provided in Section 4-36 of the General Statutes* – Property control weaknesses were encountered in the current review, therefore, this recommendation is being repeated. (See Recommendation 4.)
- *The Agency should improve its oversight over payroll matters* – The Department has strengthened controls over payroll operations and this recommendation is not being repeated.
- *The Agency should ensure that payments for training courses, conferences or seminars are documented by proof of attendance* – Proof of attendance weaknesses were encountered in the current review, therefore, this recommendation is being repeated. (See Recommendation 5.)
- *The Agency should comply with the State Comptroller’s procedures for petty cash funds* – Petty cash procedures have been strengthened, therefore, this recommendation is not being repeated.
- *The Agency should document authorizations for payroll changes for the Inmates’ payroll* – Weaknesses over Inmate payroll were encountered in the current review and as result, this recommendation is being repeated. (See Recommendation 3.)
- *The determination of prices for all Correctional Enterprises’ products and services should be fully documented including approval of prices below cost; accurate cost calculations; and adequate analysis of prevailing market prices* – Weaknesses in the maintenance of cost and pricing information continue to exist and this recommendation is being repeated. (See Recommendation 6.)
- *The Agency’s financial statements for Correctional Enterprises of Connecticut should be presented in accordance with Generally Accepted Accounting Principles* – Procedures were improved to comply with General Accepted Accounting Principles, therefore, this recommendation is not being repeated.

*Current Audit Recommendations:*

- 1. The Department of Correction should ensure that all deposits are made in a timely manner in accordance with Section 4-32 of the General Statutes.**

Comment:

Our testing of cash receipts noted several incidents of late deposits.

- 2. The Department of Correction should take appropriate action to comply with or amend regulations regarding the recovery of incarceration costs from inmates.**

Comment:

The Department has not yet begun complying with regulations requiring ten percent to be deducted from inmates' accounts receipts for the recovery of the costs of incarceration.

- 3. Controls over Commissary inmates' payroll should be improved.**

Comment:

A review of Commissary inmates' payroll disclosed incidents where documentation did not adequately support pay increases and payroll payments.

- 4. Inventory controls should be strengthened to ensure that assets are properly recorded and safeguarded.**

Comment:

A review of inventory disclosed several weaknesses in the recording and maintenance of inventory records.

- 5. The Department of Correction should ensure that payments for training courses, conferences or seminars are documented by proof of attendance.**

Comment:

Our review found that the Department was not following its procedures, which require staff to submit certificates or proof of attendance for continuing education paid by the State.

6. **The maintenance of cost accounting information on Correctional Enterprises of Connecticut's operations should be improved to ensure that manufacturing and service costs are accurate and that sale prices are compared to applicable prevailing market prices.**

Comment:

Our review showed that improvements were needed in the maintenance of cost accounting records for Correctional Enterprises of Connecticut operations.

## INDEPENDENT AUDITORS' CERTIFICATION

As required by Section 2-90 of the General Statutes we have audited the books and accounts of the Department of Correction for the fiscal years ended June 30, 2002 and 2003. This audit was primarily limited to performing tests of the Agency's compliance with certain provisions of laws, regulations, contracts and grants, and to understanding and evaluating the effectiveness of the Agency's internal control policies and procedures for ensuring that (1) the provisions of certain laws, regulations, contracts and grants applicable to the Agency are complied with, (2) the financial transactions of the Agency are properly recorded, processed, summarized and reported on consistent with management's authorization, and (3) the assets of the Agency are safeguarded against loss or unauthorized use. The financial statement audits of the Department of Correction for the fiscal years ended June 30, 2002 and 2003, are included as part of our Statewide Single Audits of the State of Connecticut for those fiscal years.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Department of Correction complied in all material or significant respects with the provisions of certain laws, regulations, contracts and grants and to obtain a sufficient understanding of the internal control to plan the audit and determine the nature, timing and extent of tests to be performed during the conduct of the audit.

### **Compliance:**

Compliance with the requirements of laws, regulations, contracts and grants applicable to the Department of Correction is the responsibility of the Department of Correction management.

As part of obtaining reasonable assurance about whether the Agency complied with laws, regulations, contracts, and grants, noncompliance with which could result in significant unauthorized, illegal, irregular or unsafe transactions or could have a direct and material effect on the results of the Agency's financial operations for the fiscal years ended June 30, 2002 and 2003, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants. However, providing an opinion on compliance with these provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported herein under generally accepted government auditing standards.

We did, however, note certain immaterial or less than significant instances of noncompliance that we have disclosed in the "Condition of Records" and "Recommendations" sections of this report.

**Internal Control over Financial Operations, Safeguarding of Assets and Compliance:**

The management of the Department of Correction is responsible for establishing and maintaining effective internal control over its financial operations, safeguarding of assets, and compliance with the requirements of laws, regulations, contracts and grants applicable to the Agency. In planning and performing our audit, we considered the Agency's internal control over its financial operations, safeguarding of assets, and compliance with requirements that could have a material or significant effect on the Agency's financial operations in order to determine our auditing procedures for the purpose of evaluating the Department of Correction's financial operations, safeguarding of assets, and compliance with certain provisions of laws, regulations, contracts and grants, and not to provide assurance on the internal control over those control objectives.

However, we noted certain matters involving the internal control over the Agency's financial operations, safeguarding of assets, and/or compliance that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control over the Agency's financial operations, safeguarding of assets, and/or compliance that, in our judgment, could adversely affect the Agency's ability to properly record, process, summarize and report financial data consistent with management's authorization, safeguard assets, and/or comply with certain provisions of laws, regulations, contracts, and grants. We believe our findings concerning the lack of documentation for inmate pay raises and inventory control weaknesses represent reportable conditions.

A material or significant weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with certain provisions of laws, regulations, contracts, and grants or the requirements to safeguard assets that would be material in relation to the Agency's financial operations or noncompliance which could result in significant unauthorized, illegal, irregular or unsafe transactions to the Agency being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over the Agency's financial operations and over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material or significant weaknesses. However, we believe that neither of the reportable conditions described above are material or significant weaknesses.

We also noted other matters involving internal control over the Agency's financial operations and over compliance which are described in the accompanying "Condition of Records" and "Recommendations" sections of this report.

This report is intended for the information of the Governor, the State Comptroller, the Appropriations Committee of the General Assembly and the Legislative Committee on Program Review and Investigations. However, this report is a matter of public record and its distribution is not limited.

**CONCLUSION**

We wish to express our appreciation for the cooperation and courtesies extended to our representatives by officials and staff of the Department of Correction during the examination.

Anthony Turko  
Principal Auditor

Approved:

Kevin P. Johnston  
Auditor of Public Accounts

Robert G. Jaekle  
Auditor of Public Accounts

## Table of Contents

---

<b>INTRODUCTION</b> .....	1
<b>COMMENTS</b> .....	1
Foreword.....	1
Board of Pardons.....	2
Résumé of Operations.....	2
General Fund Revenues and Receipts .....	2
General Fund Expenditures .....	3
Correctional Industries Fund .....	4
Per Capita Costs.....	5
Fiduciary Funds .....	5
Program Evaluation .....	5
<b>CONDITION OF RECORDS</b> .....	7
Late Deposits .....	7
Incarceration Cost Recoveries From Inmates.....	8
Inmate Payroll.....	9
Property Control .....	10
Documentation of Education and Training.....	12
Correctional Enterprises – Cost Accounting Records .....	13
<b>RECOMMENDATIONS</b> .....	14
<b>INDEPENDENT AUDITORS' CERTIFICATION</b> .....	17
<b>CONCLUSION</b> .....	19